# Annual Report 1986

Bell Canada Enterprises Inc.

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BCE* is a management holding corporation whose subsidiaries and associated companies are major providers of telecommunications services; they are leaders in the manufacture and supply of telecommunications equipment, and in natural gas transportation and natural resource operations.

BCE, with its other subsidiaries and associated companies, also is a major provider of international telecommunications consulting services and is engaged in printing, packaging and publishing, real estate and other fields.

BCE has the largest number of registered shareholders of any Canadian corporation and its common shares are listed on stock exchanges in Canada, the United States, Japan and Europe.

** BCE is a trademark of Bell Canada Enterprises Inc.*

Bell Canada Enterprises Inc.
Executive Offices
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7

**1987 Annual Meeting**
The annual meeting of the shareholders will take place at 10 a.m., Wednesday, April 29, 1987 at the Halifax Sheraton Hotel, 1919 Upper Water Street, Halifax, Nova Scotia.

BCE executives met with financial leaders in a number of centres in Europe, the United States and Japan during 1986.

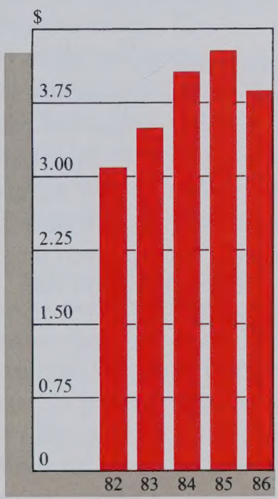
Chairman A. Jean de Grandpré (left), in the presence of Reinier Fuchs, executive secretary of the Amsterdam Stock Exchange (standing), and Wilco ten Berg, chief general manager of the Algemene Bank Nederland N.V., signed a listing agreement to have BCE common shares included in the new Amsterdam Securities Account System (ASAS). The signing took place in Amsterdam on October 7.

BCE is the first Canadian company to join ASAS, an important step in the internationalization of the world's oldest stock exchange, founded in 1611. BCE's predecessor, Bell Canada, first was listed on the exchange in 1955.

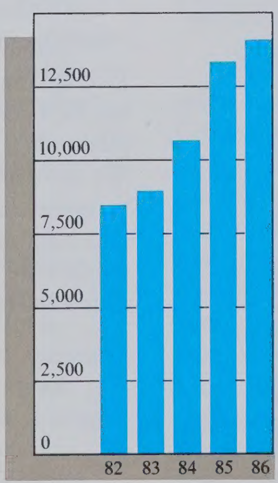
# Financial Highlights

| Canadian dollars | 1986 | 1985 | 1984 |
|---|---|---|---|
| | (in millions of dollars, except per share amounts) | | |
| **Earnings per common share** | **$ 3.83** | $ 4.23 | $ 4.03 |
| **Total revenues** | **13,932.5** | 13,257.4 | 10,578.7 |
| **Net income** | **1,023.6** | 1,050.8 | 940.3 |
| **Net income applicable to common shares** | **986.2** | 1,009.0 | 894.2 |
| **Return on common equity** | **12.5%** | 15.0% | 15.7% |
| **Total assets** | **23,713.6** | 20,583.4 | 17,486.0 |
| **Gross capital expenditures** | **2,769.2** | 2,426.9 | 1,956.3 |

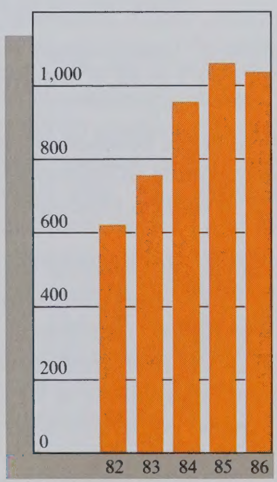
**Earnings per common share**
(before extraordinary items)



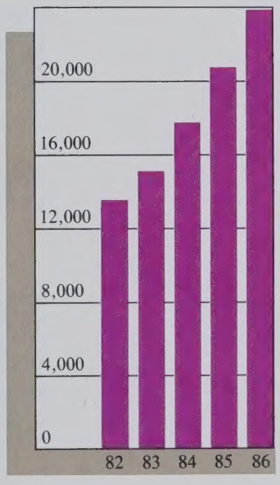

**Total revenues**
(millions of dollars)




**Net income**
(millions of dollars)




**Total assets**
(millions of dollars)



## To All Our Shareholders

Although it was in some ways a year of consolidation following major expansion in 1985, the year 1986 also saw BCE's assets grow by more than three billion dollars — almost as large an increase as that of the preceding year. Total assets now stand at nearly $24 billion, up from $20.5 billion last year.

However, our 1986 growth differed from earlier expansion in that it was confined to fields in which we were already active and did not involve ventures into new industries. Thus, while BCE continues to grow rapidly, our 1986 efforts were concentrated in those industries and markets where we already occupy established positions.

Total operating revenues for the year were $13,932.5 million, up 5.1 per cent from 1985 revenues of $13,257.4 million.

Net income for 1986 was $1,023.6 million, compared with $1,050.8 million in 1985. This made BCE the first Canadian company to attain net income of more than a billion dollars in consecutive years.

Net income applicable to common shares was $986.2 million, down 2.3 per cent from the $1,009.0 million reported for 1985. The main reason for the reduction in 1986 net income was the decline in world energy prices, which adversely affected the contribution of TransCanada PipeLines Limited (TCPL) to BCE's earnings.

The average number of common shares outstanding in 1986 rose by 8.0 per cent to 257.6 million shares.

Earnings per common share for the year were $3.83, compared with $4.23 in 1985. These figures take into account the deduction of the preferred dividend requirements equivalent to $0.14 per common share, compared with $0.18 in 1985.

A noteworthy aspect of our performance for the year is the fact that it was achieved despite severely depressed world prices in the energy field and weaknesses in parts of the real estate market. The negative impacts of these conditions on some of our investments were more than offset by strong growth in other operations, especially telecommunications.

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One of the major challenges now facing most units within our corporate family is that of absorbing new assets and operations and adjusting to new demands in a changing environment. We believe the current mix of BCE businesses and their underlying asset bases represent a solid foundation, blending major stakes in fast-growing high technology fields with equally strong positions in more traditional resource and real estate enterprises. We will continue to monitor growth and expansion opportunities while nurturing the industries in which we now have substantial interests.

Our management teams are to be commended for their excellent performance under the relentless pressures generated by our rapid growth. They absorbed major new operations and implemented complex reorganizations smoothly. Indeed, in many operations, significant improvements in efficiency have been achieved.

Sincere thanks are due to the 110,000 employees of the companies in the BCE family, without whom our accomplishments would not have been possible. We are fortunate to have within our group so many dedicated individuals whose skills and capabilities have been proven on a worldwide basis. They represent the ultimate strength of BCE.

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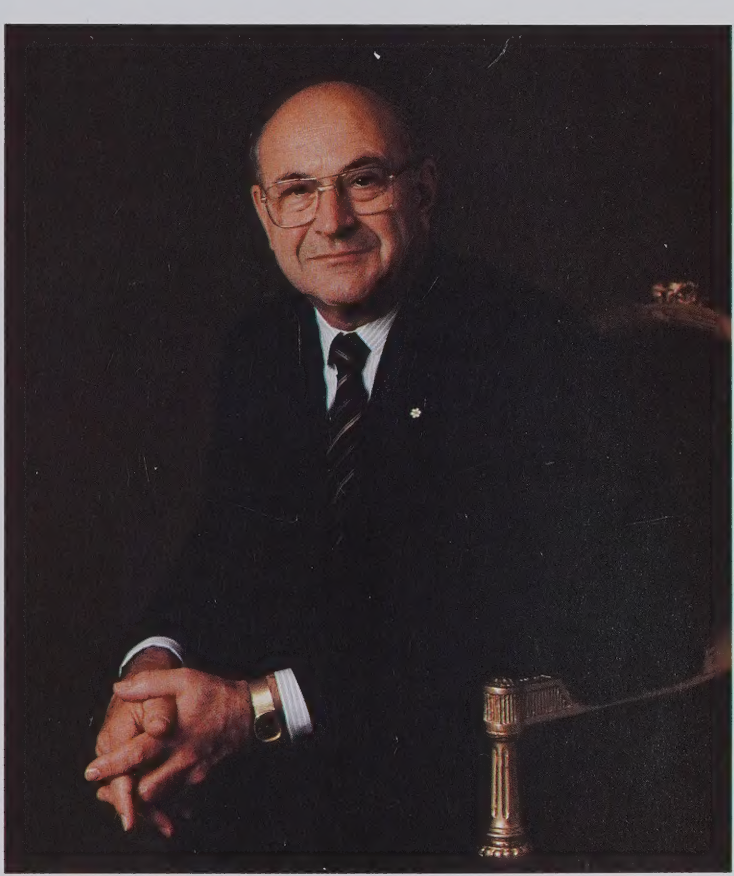

A. Jean de Grandpré

The competitive environment for most of our businesses became even more intense during 1986. This situation, which effectively puts many of our products and services in a global market context, obliges us to meet competitive pressures arising from many sources. There is a continuing need to adapt and innovate in order to maintain and enhance our market positions in locations both close to home and far afield. This is a major objective of the consolidation process now going on within the BCE family of companies.

While worldwide competitive pressures have presented new marketing challenges, they have also opened new opportunities. We are continuing to expand aggressively in international markets on many fronts, and we anticipate that a large part of our future growth will come in the markets of the United States, Europe, the Middle East and the Asia-Pacific region.

Bell Canada enjoyed another good year in 1986 and was once again the main contributor to BCE's earnings. Higher net income for Bell Canada was the result of growing demand for telecommunications services, continuing control of expenses and improvements in productivity.

In October 1986, the Canadian Radio-television and Telecommunications Commission (CRTC) rendered its decision on Bell Canada's revenue requirements for 1987, 1986 and 1985. As a result of one aspect of the decision, revised and lower rates for long distance calling within Bell Canada territory became effective on January 1, 1987. The CRTC also concluded that, according to its determinations, Bell Canada had earned excess revenues in 1986 and 1985, and directed the company to provide most of its subscribers with a one-time credit totalling $206 million by January 31, 1987.

Bell Canada has commenced appeal proceedings before the Federal Court of Appeal regarding the one-time credit, and the company has been granted a stay of execution by the Court allowing payment of the credit to be withheld until the appeal is decided. If the CRTC decision were to be upheld, it would reduce net income for Bell Canada and for BCE by approximately $71 million after taxes, of which $42 million relates to 1986 and $29 million to 1985. However, it is our view, supported by opinion of legal counsel, that Bell Canada's appeal should be upheld.

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Northern Telecom Limited (NTL) once again provided the second-largest contribution to BCE's earnings. After a sluggish first half of the year, sales volume in the United States rebounded to produce strong second-half results. Earnings were somewhat depressed in the first half by the cost of mounting an intensive — and successful — effort to remedy software problems in certain business service equipment.

Improved profit margins and strong demand for central office equipment continue to enhance earnings.

Northern Telecom's aggressive programs to maintain and extend its technological lead in fully digital systems are continuing. Important advances were made during the year in the implementation of the company's Integrated Services Digital Network (ISDN), which will form the backbone of the telecommunications systems of the future.

Research and development programs are crucial to the continuing success of BCE's core units, and these functions received continued strong support in 1986. BCE companies, principally through Bell-Northern Research Ltd. (BNR), have spent nearly $3 billion in the past five years on research facilities and projects. This massive effort, the largest privately funded research program in Canada, is necessary to sustain leadership positions in telecommunications products and services and to exploit emerging technological opportunities in the years ahead.

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TransCanada PipeLines Limited (TCPL) was adversely affected by the worldwide decline in energy prices during 1986. As part of the adjustment to new conditions, TCPL made investment and asset provisions of $114.5 million, including a $100.6 million writedown in the value of its oil and gas properties. On a consolidated basis, these writedowns affected BCE's net income in the amount of $21.2 million.

TCPL's transportation and marketing operations met the challenges of massive changes in the company's regulatory environment. While oil and gas operations were adversely affected by the decline in world energy prices during 1986, the recent firming of prices will, if sustained, permit improved performance.

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The restructuring process initiated at BCE PubliTech Inc. (BCEP) early in 1986 is now well advanced. With the opening of a new plant in Saint John, N.B., the company's printing facilities are now operating coast-to-coast across Canada. Security printing operations have expanded into the U.S. market, and further expansion is being pursued in Europe. Packaging operations are now functioning on a continental scale, allowing U.S. and Canadian facilities to serve jointly multinational customers. The directory group also had significant success in the highly competitive directory advertising market with new, as well as renewed, contracts in Canada, the United States and Australia. The BCEP organization is well positioned to increase its contribution to overall earnings in the next few years.

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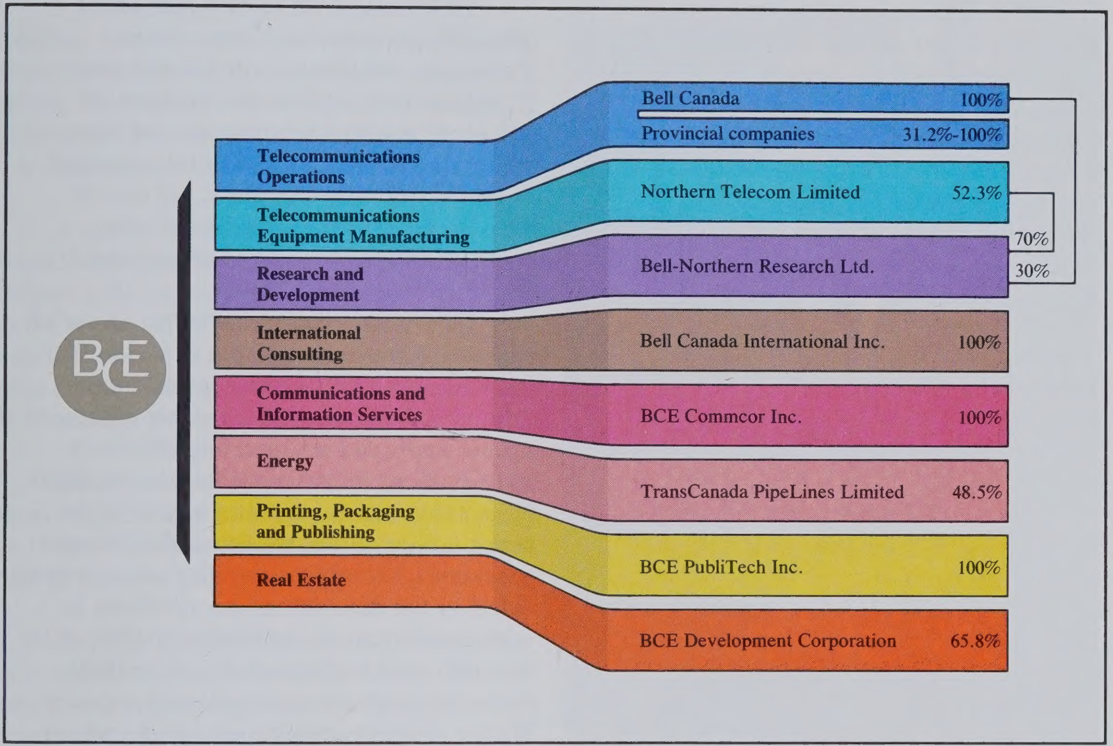


BCE Development Corporation (BCED), through the acquisition of Oxford Properties Inc., doubled its assets to more than $2.5 billion. The acquisition included landmark office buildings, retail space and other commercial property located in Minneapolis, St. Paul, Chicago, Denver and Phoenix.

BCED was relieved of restraints imposed by a financial restructuring plan, and raised $300 million of new common equity in one of the largest equity offerings ever undertaken by a Canadian real estate company.

BCED's earnings declined from their 1985 level (which included a substantial tax recovery), but were nonetheless in line with expectations.

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Bell Canada International Inc. (BCI), the worldwide telecommunications consulting arm in the BCE family of companies, enjoyed another successful year serving clients on 90 projects in 37 countries. Assignments ranged from the provision of a single manager for software training to the dedication of a team of hundreds advising on the management of an entire network.

Major contracts obtained during the year included two turnkey network projects in Saudi Arabia and the Congo. These assignments were added to an already impressive list of continuing and completed projects which have taken BCI personnel to no fewer than 70 countries over the past 20 years.

At the end of 1986, BCI became the largest independent maintenance group for data processing and communications equipment in Europe by acquiring Dataway Computer GmbH, a West German computer maintenance company based in Düsseldorf.

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The information contained in this report about our various subsidiaries, affiliates and associated companies is, of necessity, limited. However, the major companies in the BCE group publish their own annual reports or annual reviews. Interested parties may refer to these sources for fuller detail and financial data relating to particular companies.

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Several changes in the composition of your board of directors occurred during the year. At the annual meeting of BCE shareholders, held May 1 in Toronto, Messrs. Warren Chippindale and Rowland C. Frazee were elected to the board. Mr. Chippindale is former chairman and chief executive partner of Coopers & Lybrand, Canada. Mr. Frazee retired last year as chairman and chief executive officer of The Royal Bank of Canada.

James W. Kerr, whose distinguished contribution included service on the boards of Bell Canada, Northern Telecom Limited and TransCanada PipeLines Limited, retired from the BCE board upon reaching the age limit for service. Dr. Robert J. Richardson resigned from the BCE board at the close of 1986, upon taking early retirement. As BCE's first president, Dr. Richardson participated in BCE's evolution to its position of leadership among Canadian corporations. Effective January 1, 1987, Gerald J. Maier, president and chief executive officer of TCPL, was appointed to the BCE board.

On January 1, 1987, J.V. Raymond Cyr assumed the position of president of BCE. Mr. Cyr had served as president of Bell Canada since 1983. He became that company's chief executive officer in 1984 and chairman of the board in 1985. He is continuing his role as Bell Canada's chairman in conjunction with his new position at BCE. Further details on Mr. Cyr's background and accomplishments are presented on the next page.

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BCE was proud to be a part of the international success of Expo '86 in Vancouver, which was attended by over 22 million visitors. Our involvement in this event was an important part of our continuing effort to raise our international profile as not only Canada's, but one of the world's, leading providers of telecommunications products and services.

In summary, what started as a year of consolidation has turned out to be another year of growth in the corporation's assets. This growth has strengthened our organization, improved its operating efficiency and enhanced its positions in many markets. Perhaps the most important aspect of the year's activities was the expansion of our operations internationally. The security provided by the diversity of our positions in various industries is now fully reinforced by the additional security of divers markets for each company's products and services. We are currently positioned to take advantage of favourable developments wherever they might arise. In this situation, we look forward to 1987 with great confidence.

All BCE shareholders are cordially invited to attend the 1987 annual meeting. It will take place at 10 a.m., Wednesday, April 29, in the Halifax Sheraton Hotel, Halifax, Nova Scotia.

A. Jean de Grandpré
Chairman and chief executive officer

February 25, 1987

## BCE's New President

J.V. Raymond Cyr, 53, is an outstanding example of the development of senior management from within the organization. He became president of Bell Canada Enterprises Inc. on January 1, 1987. He is also chairman of Bell Canada.

A native of Montreal, Mr. Cyr put himself through university by working at various jobs, including two summers with Bell Canada. Mr. Cyr graduated in 1958 with a bachelor of applied science degree from l'École Polytechnique of l'Université de Montréal.

He joined Bell Canada that same year as an engineer and in 1962 was assigned to an 18-month advanced study program at the Bell Telephone Laboratories in New Jersey.

Mr. Cyr now looks back on this period as a critical turning point in his career. It was strong supporting evidence for an observation he had made about Bell Canada: though a large corporation, it noticed promising individuals and encouraged them to develop their skills and career prospects.

The technical and managerial know-how he brought back from the Bell Labs program, along with the improved presentation and English-language skills that resulted from nearly two years of living in a new and different cultural environment, have served him and the corporation well ever since.

Following completion of these studies, Mr. Cyr was assigned to the Bell Canada headquarters engineering group in Montreal, becoming chief engineer in 1970.

In 1972, he was selected as part of a senior group from industry, government and the military to participate in the annual international studies program at the National Defence College in Kingston, Ontario.

Mr. Cyr recalls, "In that one year, we travelled to 30 countries in South America, the Far East, Asia and Africa. In every country we met not only the leaders of the country, but the opposition leaders, union leaders, university professors, media people and businessmen."

J.V. Raymond Cyr

Upon his return to Bell Canada, Mr. Cyr was appointed a vice-president and, in 1975, became executive vice-president, eastern region. He was appointed president of Bell Canada in 1983, chief executive officer in 1984 and, a year later, chairman of the board.

Mr. Cyr was honoured by being named 1984-85 international chairman of the Telephone Pioneers of America. With more than 630,000 members, it is the largest voluntary association of industrial employees in the world.

Mr. Cyr is a director of Bell Canada Enterprises Inc., as well as being on the boards of TransCanada PipeLines Limited, National Bank of Canada, Steinberg Inc., Confederation Life Insurance Co., Dominion Textile Inc. and Imperial Oil Limited.

He is a member of the Canada/U.S. Relations Committee of the Canadian Chamber of Commerce and is chairman of the board of the Montreal Museum of Contemporary Art.

At Bell Canada's quality assurance laboratories near Montreal, extensive testing is carried out on virtually everything the company buys or produces. The services of the labs and staff are made available to outside users through INFO PRO, which markets Bell Canada's expertise and capabilities externally.

***Bell Canada***

Wholly owned by BCE, Bell Canada is the largest member of our corporate family, with assets of nearly $13 billion. Bell Canada provides advanced voice, data and image transmission services, as well as associated management and operating systems, to more than six million customers throughout its five million square kilometres of operating territory in Quebec, Ontario and the eastern Arctic.

Both its size and the scope of its activities make Bell Canada a major force in the Canadian economy. The company and its subsidiaries have over 51,000 employees and a payroll of some $1.8 billion. Several billion dollars more are spent annually on goods and services purchased from thousands of suppliers.

Bell Canada had an excellent year in 1986, achieving improvements in productivity as well as substantial growth in certain traditional and new products and services. Net income for the year was $683.9 million, before extraordinary item, compared with $652.1 million in 1985. The company's return on average common equity, before extraordinary item, for 1986 was 13.5 per cent, compared with 13.8 per cent in 1985.

Gross capital expenditures during the year totalled $1,648 million, and plans call for further expenditures of $1,786 million in 1987.

**CRTC Directives**

Bell Canada is appealing that part of a decision, issued in October 1986, by the Canadian Radio-television and Telecommunications Commission (CRTC) which ordered rebates to customers totalling $206 million. The application to the Federal Court of Appeal asserts that the CRTC lacks the jurisdiction to order the rebate. The Court has agreed to allow Bell Canada to withhold the rebate until the appeal has been decided.

**Integrated Office Systems**

During 1986 Bell Canada continued to pursue its internal office services program. An additional 2,600 integrated office system (IOS) users were added to bring the total to 4,600. It is expected that 1,300 new users will be added during 1987 as system capacity expands.

Bell's existing base of 2,200 personal computers will be expanded by 500 during 1987 to provide an average of one for every 11 office workers. In addition, minicomputers will be used extensively to facilitate the development of departmental systems.

**New Products and Services**

The convergence of computers and telecommunications is continuing to broaden the spectrum of products and services offered by the company.

Several important steps have been taken towards the long-term objective of a single digital network capable of supporting the full array of telecommunications systems and services. One of the first applications was tested in Peterborough, Ontario, during the year. On trial were four Call Management Services™ which provide customers with a display of incoming telephone numbers, notification when busy lines become free, extended call forwarding and tracing of nuisance calls.

A major program of technical and consumer trials will start in Ottawa in mid-1987 to test the technology of the Integrated Services Digital Network (ISDN).

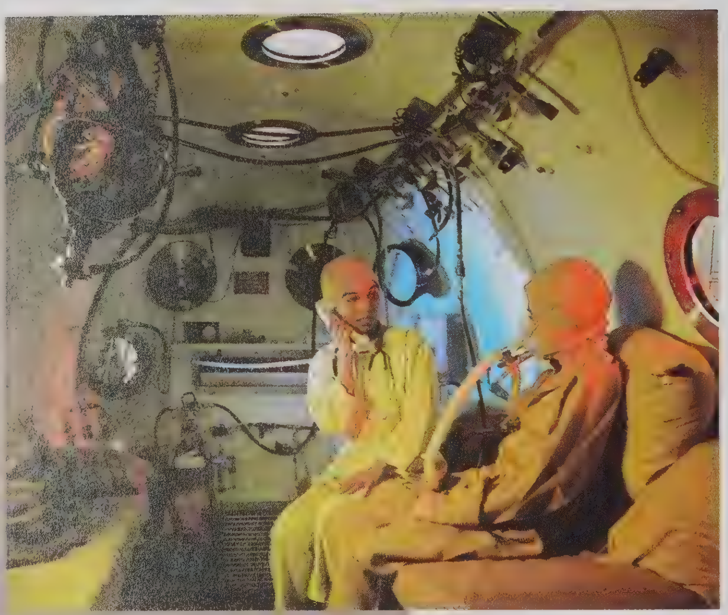
ISDN will integrate, or combine, Bell's voice, data, text and image services on a single digital network. Customers will have easy access to these services through a single jack in the wall. The technology of ISDN is based on recommendations developed by CCITT, the international telecommunications standards agency in Geneva.

The full extension of ISDN to all customers will depend on the outcome of the trials and the conversion of all existing transmission lines and switches to digital technology.

ISDN promises to provide convenience and flexibility in communications to customers, and, over time, reduce capital costs for Bell Canada, by making the network more efficient.

**Bell Canada Highlights**

| dollar figures in millions | 1986 | 1985 |
|---|---|---|
| **Operating revenues** | **$ 6,254.6** | $ 5,768.6 |
| **Net income** | | |
| before extraordinary item | **$ 683.9** | $ 652.1 |
| after extraordinary item | **$ 711.2** | $ 652.1 |
| **Return on average common equity** | | |
| before extraordinary item | **13.5%** | 13.8% |
| after extraordinary item | **14.1%** | 13.8% |
| **Total assets** | **$12,693.2** | $11,940.9 |
| **Gross capital expenditures** | **$ 1,647.8** | $ 1,409.1 |
| **Number of employees** | **51,370** | 50,869 |
| **Network access services (thousands)** | **7,403.9** | 7,092.2 |
| **Long distance messages (millions)** | **1,028.4** | 926.8 |



The special handset in the hyperbaric, or decompression, chamber at Toronto General Hospital permits outside communication by patients and medical staff during treatment. The hospital's 4,000-line internal telecommunications network was designed and installed by Bell Information Systems.

**Bell Information Systems**

In November 1986 a new marketing, sales and service division called Bell Information Systems (BIS) was formed. BIS combines the operations formerly under Bell Communications Systems Inc. (BCSI) with Bell Canada's Business Communications Group (BCG). The new unit will emphasize after-sales service and build its position in the business market on its ability to provide communications solutions that satisfy customer needs.

Since 1983, Bell Canada has been working intensively to improve its competitive capabilities in a changing business environment. These efforts are now bearing fruit, and the company is currently meeting its competitors head-on with notable success. A trend first visible last year is now gathering momentum: customers lured away by newcomers to the telecommunications field are now returning to Bell Canada. In Quebec alone, $4 million worth of business has been won back. Ontario shows a similar trend; over 100 terminal systems representing several millions of dollars in sales crossed back to Bell from competitors.

**Management Changes**

Coincident with the appointment of Bell Canada's former chief executive, J.V. Raymond Cyr, as president of BCE, Léonce Montambault has been appointed president and chief executive officer of Bell Canada. Previously, Mr. Montambault was an executive vice-president of Bell Canada. Mr. Cyr will retain the post of chairman of Bell Canada.

**BCE Commcor Inc./Bell Canada Management Corporation**

At year-end, Bell Canada sold Bell Canada Management Corporation, subsequently renamed BCE Commcor Inc., to BCE. This transfer includes subsidiary and associated companies engaged in such activities as mobile phone services and microcomputer retailing.

***Other BCE Telecommunications Interests***

At December 31, 1986, other direct telecommunications subsidiaries of BCE were Télébec Ltée (100 per cent); Northern Telephone Limited (99.8 per cent); and NewTel Enterprises Limited (54.2 per cent), the parent corporation of Newfoundland Telephone Company Limited.

BCE also has minority holdings in Maritime Telegraph and Telephone Company, Limited (32.0 per cent) and Bruncor Inc. (31.2 per cent), the parent corporation of The New Brunswick Telephone Company, Limited.

Together, these companies contributed $42 million to BCE's earnings in 1986, a decrease of 1.2 per cent from 1985.

*(Effective from January 1, 1986, Northern Telecom Limited (NTL) has reported its results in U.S. dollars. Results in this section are expressed in Canadian dollars.)*

BCE's extensive involvement in telecommunications services is strongly reinforced by our controlling interest (52.3 per cent of equity) in Northern Telecom Limited, the world's largest supplier of fully digital telecommunications systems and a significant supplier of integrated office systems.

After an earnings decline in the first half of the year, a strong second-half recovery, principally in the fourth quarter, allowed Northern Telecom's net earnings applicable to common shares for the year to reach $397.8 million, an increase of 5.6 per cent over 1985 net income of $376.8 million. Consolidated revenues for the year advanced to $6.083 billion from $5.818 billion the previous year.

The 23 per cent earnings decline in the first half was due to software problems with features and enhancements for central office switching products and the high cost of resolving them. Meeting this challenge was vital to maintaining Northern Telecom's enviable reputation for product reliability and dependable customer service. A "war room" was established at the company's Bramalea, Ontario, digital switching plant, where some 75 engineers worked round-the-clock until the problems were resolved.

Results in the second half of the year benefitted from increased sales of central office equipment and improved profit margins. Canadian operations were strong throughout the year, while U.S. and international operations gathered momentum as the year progressed.

Northern Telecom's order backlog at the end of 1986 was $2.13 billion, up 2.5 per cent from a year earlier and down nine per cent from the 1986 third-quarter level.

Northern Telecom equipment was used to make the first simultaneous voice and data call in the U.S. to meet ISDN standards. The call took place in November in Phoenix, Arizona.

Northern Telecom is continuing to pursue improvements in quality and productivity, with particular emphasis on lowering manufacturing and marketing costs. At the same time, the company is maintaining its substantial commitment to the research and development programs that are vital to its future growth.

A major milestone was reached in Northern Telecom's drive to create an Integrated Services Digital Network (ISDN), a key ingredient for the advanced telecommunications systems of the future. The first simultaneous voice and data call meeting ISDN standards was made in November through one of Northern Telecom's DMS-100™ nodes in the public telecommunications network in Phoenix, Arizona. The call used Northern Telecom's new Meridian™ digital telephone sets and Meridian M6000™ workstations.

The toughest demands that telephone companies face in serving customers are simulated by Northern Telecom in their “First Application System Testing” centres.

The FAST Centre in Ottawa is testing a new central processor for use in the DMS central office switch.

Another milestone was the installation, by Pacific Bell at Los Angeles International Airport, of the 1,000th DMS-100 digital switching system. The competitive strength of DMS-100 digital switches in the marketplace is being enhanced by several significant improvements. A new Large Business Remote switch has been introduced, offering advanced business services to major users. The call-handling capability of the DMS-100 will be doubled during 1987 with the introduction of a new central processing unit.

To improve access to the highly competitive U.S. business systems market, sales and service operations in the Pacific and Midwest regions have been transferred to Pacific Telesis and Centel. This move broadens distribution channels for the Meridian line of office systems products and improves customer service capabilities.

**Investment in R&D**

Advancing the ISDN program is Northern Telecom's leading research priority. Through Northern Telecom's subsidiary, Bell-Northern Research Ltd. (BNR), a new test and traffic simulator has been developed to evaluate ISDN products and communications protocols. A customer premises equipment test facility will also help telecommunications and computer manufacturers evaluate their terminals for ISDN compatibility.

Through BNR, Northern Telecom has spent over $2.4 billion on research and development over the past five years. An even greater amount will be expended in the next five years to maintain the company's market leadership position.

**Market Areas**

In the United States, several important strategic alliances were concluded to improve Northern Telecom Inc.'s ability to accommodate office microcomputer networks. An arrangement with Apple Computer uses Meridian SL-1 Integrated Services Networks™ to link Macintosh computers to those of other manufacturers. Another, with Hewlett-Packard, has led to the introduction of a combined interface/line card which eliminates the need for data modules between HP 3000 host computers and the Meridian SL-1™.

In Canada, where sales remain strong and stable, Northern Telecom Canada Limited broke ground for a new headquarters facility in Mississauga, Ontario. The developer for this project is BCE Development Corporation. During the year, Northern Telecom was honoured by being named the official telecommunications equipment supplier for the 1988 Olympic Winter Games in Calgary, Alberta.

Overseas, a new company called Northern Telecom Europe Limited was created, encompassing operations in Europe as well as the Near East and Africa. Sales in European markets included notable installations in the U.K. (where the local company has been restructured) and in France, where a new Meridian SL-1 system is now in operation at the Paris Bourse.

Around the Pacific Rim, major accomplishments included a long-term agreement in Japan to supply DMS-10™ equipment to Nippon Telegraph and Telephone Corporation. In China, three DMS-10 systems are now in service and a Meridian SL-1 will soon be installed. A joint venture agreement was also concluded to license a new company in Australia to manufacture and market Meridian SL-1 products and the Vienna Family™ of information management systems.

In the Caribbean, orders are in hand from half a dozen locations, including a $40-million DMS™ system for The Puerto Rico Telephone Company.

A BNR scientist employs a sophisticated closed-chamber technique to fabricate new lasers for use in high-speed fibre optic communications systems.

**Bell-Northern Research**

A key aspect of BCE's strength in the field of telecommunications is the technological support of Bell-Northern Research Ltd. (BNR), the largest private industrial research and development organization in Canada.

BNR employs over 5,000 people at its facilities in Canada, the United States and the United Kingdom. During 1986, $523.3 million was invested in BNR research and development programs, an increase of 4.8 per cent over 1985.

A decade ago, BNR pioneered the establishment of Digital World™ and now is concentrating on Open World™, a program to increase greatly the compatibility and flexibility of various telecommunications systems carrying voice, data, text and images.

Ultimately, Open World will allow users to employ a variety of telecommunications services through a single, versatile system called an Integrated Services Digital Network (ISDN). ISDN will contribute to the ongoing development of sophisticated communications networks.

A major advance in meeting the fast-growing needs of business customers is Dynamic Network Architecture™. It allows telecommunications carriers and their customers to alter network configurations quickly and easily through software-controlled switches, enhancing both convenience and efficiency. Various advances developed by BNR, such as dynamic network cross-connect switches and network controllers, are already in the customer trial stage.

BNR is also an established leader in the application of very large scale integrated (VLSI) circuits in telecommunications products. In November 1986, BNR announced the world's fastest gallium arsenide multiplier chip which dramatically increases the speed of information processing.

Perhaps BNR's greatest strength is its leadership in the development and management of the large and complex software systems which control advanced telecommunications systems. The current software system for the DMS family of products incorporates approximately five-and-a-half million lines of computer code.

BNR's continuing success is based on its close collaboration with its customers and its ability to minimize the interval between the development of new applied technologies and their delivery in the form of reliable new products ready for market.

**Bell Canada International**

Major advances were made during 1986 in enhancing Bell Canada International Inc.'s (BCI) position as one of the world's leading telecommunications consulting organizations.

**Middle East**

In Saudi Arabia, where BCI's involvement goes back to the 1970s, further progress was made in the continuing process of transferring to Saudi nationals both management and technical know-how related to the Kingdom's BCI-developed telecommunications facilities. Our second five-year contract for this work in the Kingdom will expire at the end of 1987. Discussions concerning a renewal are under way.

Other projects in the Middle East and Gulf countries included a new operations and maintenance contract for the microwave network in Saudi Arabia, and new contracts in the United Arab Emirates and Iraq.

New directory contracts in Saudi Arabia and the United Arab Emirates allow BCI to market the expertise of another member of the BCE family, Tele-Direct (Publications) Inc., in the field of directory advertising sales and publishing.

**Europe**

The company's European network of independent maintenance companies became the continent's largest with the acquisition of Dataway Computer GmbH, a computer maintenance organization based in Düsseldorf, West Germany. Dataway complements BCI's other European companies: Bell Technical Services Limited and Bell (U.K.) Communications Limited in the United Kingdom, Eurotechnica SA in France and Eurotech Italia SpA in Italy.

**United States**

In the United States, BCI Incorporated enjoyed record sales with revenue increases in all sectors of the telecommunications market. Having completed the implementation of the world's largest private network for General Motors, BCI Incorporated now anticipates rapid growth in the network market as other large corporations follow GM's lead.

BCI was awarded a three-year contract for the operation and maintenance of Saudi Arabia's microwave network. The system includes 550 stations covering 15,000 kilometres. This new project is in addition to BCI's overall contract to advise on the operation and management of the Kingdom's entire telecommunications network.

**Africa**

In Africa, BCI has now established a new office to coordinate projects in the Congo, Benin, Mali, Burkina Faso, Senegal and Niger. A major facet of these assignments is the intensive training of local personnel to staff the new systems being created.

**Asia**

The vast Asian market has been divided into three zones: Pacific/West, Hong Kong/China and Southeast. A new headquarters for the latter zone was opened in Kuala Lumpur, Malaysia. Projects were completed in Australia, New Zealand and Korea, and others are continuing in Malaysia and China.

**Caribbean/Latin America**

In the Caribbean and Latin America, a dozen projects are under way in nine countries. A nine-year contract in Trinidad and Tobago has been completed successfully. The next major marketing focus in this zone is Venezuela.

Reinforcing excellent growth prospects for 1987, BCI plans to introduce a product already established in Canada, but new to the rest of the world. Called iNet™, it is an advanced electronic library, database and messaging system.

TCPL has pioneered a process for applying a urethane recoating which inhibits pipeline corrosion.

**TransCanada PipeLines Limited**

BCE has a 48.5 per cent holding in TransCanada PipeLines Limited (TCPL), which owns and operates a 4,400-kilometre pipeline, extending from Alberta to Quebec. It also has investments in other Canadian and U.S. pipelines. In addition, TCPL markets natural gas through its wholly owned subsidiary, Western Gas Marketing Ltd., and is active in oil and gas exploration, development and production through subsidiary companies in Canada and the United States. It also has oil and gas interests in Indonesia, Australia, New Zealand, Italy and the United Kingdom.

**Earnings**

TCPL's earnings for 1986 decreased substantially, primarily due to the precipitous drop in world energy prices early in the year. The strengthening of international oil prices after the December 1986 meeting of the Organization of Petroleum Exporting Countries could lay the foundation for recovery in the petroleum industry.

Helicopters patrol TCPL's entire 4,400-kilometre pipeline right-of-way, ensuring the system's security.

By year-end, TCPL had completed significant adjustments to adapt to massive changes in the regulatory environment for the marketing and transportation sectors of its business.

TCPL's net income applicable to common shares for 1986, prior to certain provisions, was $132.3 million, compared with $233.3 million in 1985. The provisions relate to the writing down of the accounting value of oil and gas assets and certain energy-related projects by amounts totalling $114.5 million. TCPL's contribution to BCE's 1986 earnings, including the effect of the provisions, was $30.5 million, down from the 1985 contribution of $101.6 million.

**Operations**

Income from operations of the company's pipeline segment remained relatively unchanged from 1985. However, falling energy prices had a major adverse impact on the natural resources segment. The average price received by the company for Canadian crude oil in 1986 declined 48 per cent compared with 1985. Financial charges also increased during the year, primarily as a result of the lower value of the Canadian dollar against the Swiss franc.

Domestic pipeline deliveries reached 27,340 million cubic metres, setting a record for the third consecutive year. Export deliveries declined to 5,745 million cubic metres from 7,619 in 1985. However, Canadian gas producers signed new contracts under which some 11.9 million cubic metres of gas per day are scheduled to begin flowing through the TCPL pipeline system, in November 1988, to customers in the northeastern United States. To accommodate these additional volumes, TCPL has asked the National Energy Board to approve a $267 million system expansion.

Western Gas Marketing completed its first full year of operation as TCPL's marketing arm and the administrator of its natural gas purchase and sales contracts. In the face of intense competition, domestic sales declined 2.6 per cent, to 23,754 million cubic metres from 1985's level of 24,399 million cubic metres. Export sales to the U.S. dropped to 3,488 million cubic metres from 1985's 5,044 million cubic metres. This reduction reflects limited access to U.S. pipelines and intense competition from U.S. natural gas producers.

New, market-responsive pricing agreements have been negotiated with all of TCPL's distributors in Saskatchewan, Manitoba, Ontario and Quebec. Approval of the agreements has already been given by the federal, Alberta and Quebec governments. A one-year approval has been given in Ontario and discussions are continuing in Manitoba.

**Other Activities**

At the end of 1986, TCPL acquired Kopp AG International Pipeline Services of West Germany, a world leader in pipeline inspection technology and servicing. Kopp AG's sophisticated ultrasonic inspection technology for liquids pipelines will enhance TCPL's leadership in this field. The company has been involved in this activity for many years through its subsidiary, International PipeLine Engineering Limited.

The Ronalds Printing division of BCE PubliTech recently inaugurated Canada's fastest web offset printing press at its Montreal plant. The press runs at speeds of more than 2,000 feet per minute.

**BCE PubliTech Inc.**

A new management holding company, BCE PubliTech Inc. (BCEP), was created early in 1986 to consolidate BCE's interests in the fields of printing, packaging and publishing. Coincident with the creation of the holding company, there was an overall restructuring of the operating units to create three business groups: Directory, Printing and Packaging, and Security Printing.

BCE PubliTech's total revenues for 1986 were $692.9 million, up 15.0 per cent from 1985 total revenues of $602.3 million.

**Directory**

The Directory group enjoyed an excellent year, exceeding projections for both revenues and profits. A major new contract was signed last year covering directory advertising sales in Pennsylvania and Delaware. This major achievement took place in a highly competitive marketplace for directory Yellow Pages™ advertising. It involved the integration of more than 600 new employees and seven new sales offices. The company's Australian affiliate continued to have success in its various directory sales contracts.

**Printing and Packaging**

The Printing and Packaging group completed the rationalization process initiated last year and opened several new facilities. The opening of a new printing plant in Saint John, New Brunswick, has consolidated the position of Ronalds Printing as Canada's only truly national printer, with operations from coast to coast. The exceptional flexibility and efficiency of this nationwide network in serving the national market are only beginning to be realized. U.S. operations of The Case-Hoyt Corporation and Rolph-Clark-Stone Packaging Corporation have been substantially restructured to restore profitability in a highly competitive environment.

BCEP has also increased to 50 per cent its holding in North American Directory Corporation (NADCO), located in Lowell, Massachusetts. NADCO prints nearly 30 million telephone directories in 300 separate editions each year. Among the important new contracts signed during the year were five-year agreements with Bell Atlantic and Southern New England Telephone Company.

Rolph-Clark-Stone Packaging's reorganized operations are already reaping the benefits of integrated Canadian and American facilities. They now offer services on a continental basis to multinational customers.

**Security Printing**

In Security Printing, British American Bank Note Inc.'s (BABN) first U.S. operation was opened near Atlanta, in December 1986, to serve the rapidly growing U.S. lottery ticket market. It will add further lottery ticket capacity to complement BABN's Canadian facilities which now produce an average of four million tickets per day for jurisdictions in North America, Europe, Africa and Australia. BABN also produces currency, cheques, stock and bond certificates, postage stamps, credit cards and passports.

The new BCE PubliTech organization is now well positioned to increase its contribution to overall earnings in the next few years.

Directory advertising sales and printing account for a substantial portion of BCE PubliTech's sales in the United States. An edition of the Yellow Pages is shown in production at the North American Directory Corporation plant in Lowell, Massachusetts.

## Real Estate

The 52-storey Minneapolis City Center, acquired by BCED in 1986, has more than one million square feet of rentable office space.

**BCE Development Corporation**

During 1986, BCE Development Corporation (BCED) consolidated the financial recovery initiated the previous year, and took steps to launch itself into a period of intensive growth and expansion.

The company is now free of the constraints of its financial restructuring program. This allows BCED to resume funding its activities using the full range of financial instruments. An indication of the company's current financial stature is the fact that $300 million of new common equity was raised during the year. BCE maintained its percentage holding in the company by acquiring $200 million of the new shares.

**Oxford Properties Acquisition**

Part of the proceeds of this equity issue were used to finance the acquisition of Oxford Properties Inc., subsequently renamed BCE Development Properties Inc. This company's portfolio of 14 U.S. commercial properties with 11.5 million square feet of existing and potential development space has doubled BCED's assets, raising their total value to nearly $2.7 billion.

The Oxford acquisition represents a major step towards the goal of shifting the weight of the company's assets from land to commercial income properties. Commercial properties now represent 70 per cent of the total.

Earnings for the year did not match those of 1985, which were bolstered by the sale of commercial income properties. However, income from revenue properties increased. With the financial restructuring process now complete and new income-producing assets in place, the basis for an upward trend has been established.

**Developments in Progress**

The array of development projects now under way will create substantial new income-producing properties over the next few years. Major retail and office projects in Chicago and Minneapolis, a new headquarters for Northern Telecom Canada in Mississauga, Ontario, various shopping centre projects in British Columbia and the State of Washington, and BCE Place, a large office and retail complex on one of the last available development blocks in downtown Toronto, are all in various stages of development.

With respect to land holdings, strong demand, together with favourable referendum votes on development initiatives, enhanced the prospects for the company's California lands and created a stronger market for profitable sales.

**New President**

On December 1, 1986, Walter S. Pierce was appointed president of BCE Development Corporation. Mr. Pierce has extensive experience in the industry. Most recently, he was president of Bentall Properties Ltd. and senior vice-president, development, of the Bentall Group Ltd.

California is one of the most important of BCED's operating areas. Recently, as part of a joint venture, BCED developed the Dupont Center, an office complex in Irvine, California.

## Financial Review

**Net Income**

BCE's consolidated net income was $1,023.6 million in 1986, compared with $1,050.8 million in 1985 and $940.3 million in 1984. Consolidated net income applicable to common shares was $986.2 million ($3.83 per common share) in 1986, compared with $1,009.0 million ($4.23 per share) in 1985 and $894.2 million ($4.03 per share) in 1984. The main reason for the reduction in BCE's net income was the decline in world oil prices during the year 1986 which had an adverse impact on the earnings of TransCanada PipeLines Limited (TCPL), 48.5 per cent owned by BCE.

Earnings per share decreased by 9.5 per cent in 1986, compared with an increase of 5.0 per cent in 1985 and 16.5 per cent in 1984. Earnings per share for 1986 were based on an average of 257.6 million common shares outstanding, an increase of eight per cent from 238.5 million in 1985 and 221.7 million in 1984.

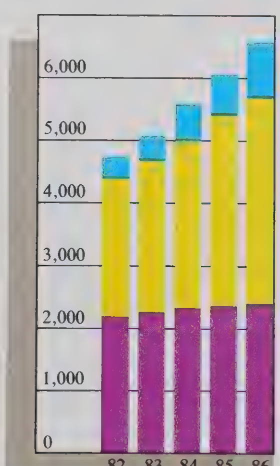
Bell Canada contributed $664.2 million ($2.58 per common share) to BCE's consolidated net income in 1986, compared with $633.1 million ($2.65 per share) in 1985 and $595.4 million ($2.69 per share) in 1984. Northern Telecom Limited, 52.3 per cent owned by BCE, contributed $207.5 million ($0.81 per share) in 1986, compared with $195.7 million ($0.82 per share) in 1985 and $164.7 million ($0.74 per share) in 1984. Other companies [including $30.5 million ($0.12 per share) from TCPL and $72.5 million ($0.28 per share) from international consulting services] contributed $151.9 million ($0.58 per share) in 1986, compared with $222.0 million ($0.94 per share) [including $101.6 million ($0.43 per share) from TCPL and $77.6 million ($0.33 per share) from international consulting services] in 1985 and $180.2 million ($0.81 per share) in 1984. Consolidated earnings per common share are after deducting preferred dividend requirements equivalent to $0.14 per share in 1986, $0.18 in 1985 and $0.21 in 1984.

On October 14, 1986, the Canadian Radio-television and Telecommunications Commission (CRTC) rendered a decision on Bell Canada's revenue requirements for 1987, 1986 and 1985. The CRTC concluded that Bell Canada had earned excess revenues in 1986 and 1985; and directed Bell Canada to provide most of its subscribers with a one-time credit totalling $206 million by January 31, 1987 (see note 20 "Regulatory decision" of Notes to Consolidated Financial Statements). Bell Canada has commenced appeal proceedings before the Federal Court of Appeal regarding that part of the CRTC decision; and the Court granted a stay of execution permitting Bell Canada to withhold payment of the credit until the appeal has been decided.

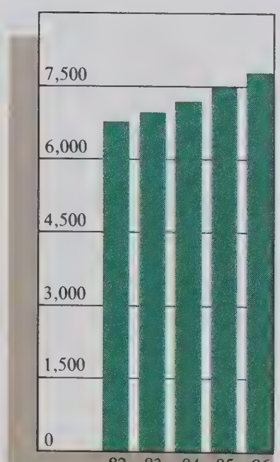
The effect of the decision (as set out in note 20), which has not been reflected in BCE's financial statements for the years ended December 31, 1986 and 1985, would be to reduce net income by $71 million after taking into account the tax effects, of which $42 million relates to 1986 and $29 million to 1985.

In addition, the CRTC determined that based on forecast revenues for 1987, a revenue reduction of $234 million would be required to achieve the allowed rate of return; and Bell Canada was ordered to lower its rates for long distance services within its territory effective January 1, 1987.

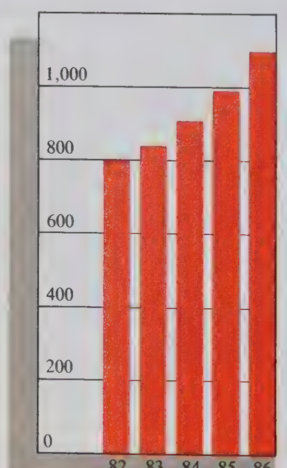
**Telecommunications operations — revenues**
(millions of dollars)




**Network access services**
(thousands)




**Long distance messages**
(millions)




Local service
Long distance service
Directory advertising
and miscellaneous — net

**Telecommunications Operations**

Operating revenues of Bell Canada and other telecommunications operating subsidiaries increased by $508.9 million (8.4 per cent) in 1986, by $491.3 million (8.9 per cent) in 1985 and by $464.8 million (9.2 per cent) in 1984.

Local service revenues increased by $25.9 million (1.1 per cent) in 1986, compared with $59.3 million (2.6 per cent) in 1985 and $70.5 million (3.2 per cent) in 1984. Local service revenues increased by 2.3 per cent in 1986 over 1985 (excluding the impact of Bell Canada's interim rate increase of approximately two per cent for certain services, in effect Jan. 1 — Sept. 1, 1985), by 1.4 per cent in 1985 over 1984, and by 0.7 per cent in 1984 over 1983. Network access services, which account for the major portion of local service revenues, increased by 4.3 per cent in 1986, compared with 3.9 per cent in 1985 and 3.7 per cent in 1984. The increase in network access services occurred in both the residential and the business markets. The increase in local service revenues resulting from growth in network access services was partially offset by the effect of conversions from traditional rental services to sales-type lease services introduced in 1983, and by some competitive erosion in the provision of terminal equipment.

Long distance revenues increased by $314.5 million (10.3 per cent) in 1986, compared with $301.2 million (11.0 per cent) in 1985 and $258.1 million (10.4 per cent) in 1984. Excluding the year-over-year effect of rate increases, long distance revenues increased by 11.1 per cent in 1986, by 10.3 per cent in 1985, and by 8.5 per cent in 1984, and resulted primarily from increases in the number of long distance messages. In 1986, the number of long distance messages was 1,083.4 million, an increase of 105.9 million over 1985. The number of long distance messages increased by 10.8 per cent in 1986 over 1985 and by 9.2 per cent in 1985 over 1984.

Operating expenses increased by $401.1 million (9.3 per cent) in 1986, by $341.9 million (8.6 per cent) in 1985 and by $315.5 million (8.7 per cent) in 1984. The increase in 1986 resulted primarily from higher employee-related expenses and the expensing of various items which in the past had been capitalized.

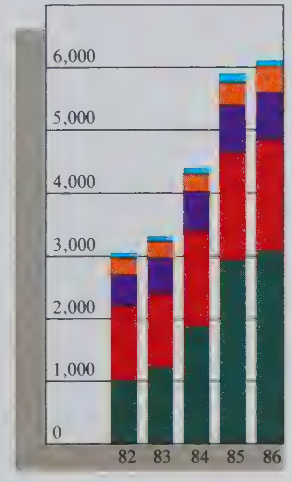
**Telecommunications Equipment Manufacturing***

Revenues of Northern Telecom were $6,036.1 million, up 4.7 per cent from $5,766.3 million in 1985, which had grown 33.4 per cent from $4,321.0 million in 1984. Revenues (from customers and based on the location of the selling organization) increased in 1986 from the Canadian and international operations, while revenues from the United States operations posted a small decline. Although volume growth occurred in all key product lines and markets, revenues were affected by price declines.

Revenues from the U.S. in 1986 were $3,966.2 million (65.7 per cent of total revenues), compared with $3,930.3 million (68.2 per cent of total revenues) in 1985 and $2,826.0 million (65.4 per cent of total revenues) in 1984. Revenue growth was impacted primarily by a slowdown in demand by the Bell operating companies for central office switching equipment in the latter half of 1985 and the first six months of 1986.

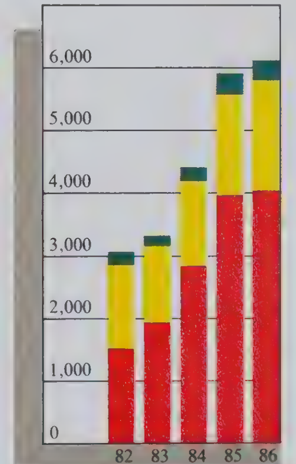
* On January 1, 1986, Northern Telecom commenced reporting to its shareholders in U.S. dollars. Northern Telecom results are reported herein in Canadian dollars.

**NTL revenues by product lines**
(millions of dollars)




Switching
Integrated business systems and terminals
Transmission equipment
Cable and outside plant
Other

**NTL revenues by geographic areas**
(millions of dollars)




United States
Canada
Other

Revenues from Canada of $1,774.5 million (29.4 per cent of total revenues) increased by $179.1 million (11.2 per cent) over 1985 revenues of $1,595.4 million (27.7 per cent of total revenues), which were up $274.5 million (20.8 per cent) from $1,320.9 million (30.6 per cent of total revenues) in 1984.

Central office switching revenues in 1986 were $3,068 million, compared with $2,923 million in 1985, and $1,886 million in 1984. Integrated business systems and terminals revenues were $1,762 million in 1986, compared with $1,715 million in 1985 and $1,508 million in 1984. Transmission revenues were $745 million in 1986, compared with $738 million in 1985, and $600 million in 1984. Revenues from cable and outside plant products rose 21.3 per cent to $437 million in 1986, compared with $360 million in 1985 and $309 million in 1984.

Gross profit in 1986 improved to $2,295.4 million from $2,118.4 million in 1985 and $1,678.9 million in 1984. The gross margin also improved to 38.0 per cent, up from 36.7 per cent in 1985, but down from 38.9 per cent in 1984. The gross margin improvement in 1986 was due principally to a major emphasis on cost improvement programs in manufacturing and on overhead reduction which, together, reduced the impact of continuing price reductions across most major product lines. The decline in gross profit margin percentage in 1985 from 1984 was due mainly to price reductions to meet increased competition and new feature introduction costs for the central office switching product lines.

The orders on hand at December 31, 1986, were $2,125.1 million, up 2.5 per cent from $2,073 million in 1985 and compared with $2,308 million in 1984. Most of the current orders on hand, representing orders with a shorter delivery interval compared to prior years, are for delivery in 1987.

Selling, general and administrative (SG&A) and other expenses include SG&A expenses and net research and development (R&D) expenditures of Northern Telecom. SG&A expenses in 1986 of $1,054.3 million (17.5 per cent of total revenues) increased by $103.1 million over the 1985 level of $951.2 million (16.5 per cent of total revenues), which increased by $173.5 million over the 1984 level of $777.7 million (18.0 per cent of total revenues). Net R&D investment in 1986 was $658.6 million, compared with $586.3 million in 1985; the 1984 level was $431.5 million.

**Research and Development**

Consolidated R&D expenditures, which include net R&D expenditures of Northern Telecom mentioned above, amounted to $787.6 million in 1986 (an increase of 11.5 per cent over 1985), compared with $706.5 million in 1985 and $543.1 million in 1984.

**Real Estate Operations**

The figures for 1985 reflect the consolidation of BCE Development Corporation (BCED), which was acquired in the first quarter of 1985. Operating revenues for 1986 include $236.9 million of real estate sales and $48.2 million of rental income, compared with $376.9 million and $22.3 million, respectively, in 1985. Despite the revenues and expenses related to BCE Development Properties Inc., acquired in 1986 by BCED, 1986 revenues are lower than those for 1985. The major reason for the higher level of revenues in 1985 was the disposition of two large office buildings. A large proportion of the assets in real estate operations consists of properties under development. Accordingly, real estate operations are not expected to contribute substantially to BCE's consolidated net income in the near future.

**Other Operations**

Other operations include international consulting services; printing, packaging and publishing; and other fields. Operating revenues were $1,063.4 million in 1986, compared with $1,050.8 million in 1985 and $715.7 million in 1984. Operating expenses were $876.7 million in 1986, compared with $877.4 million in 1985 and $604.0 million in 1984. The increase in 1985 net revenues over 1984 was due mainly to the contribution from international consulting services. For 1986 over 1985, the increase in net revenues was due principally to printing, packaging and publishing. The second five-year management contract with the government of the Kingdom of Saudi Arabia, renewed in 1983, will be terminating in December 1987. The future level of revenues from international consulting services will be dependent upon the number and value of new and renewed contracts.

**Associated Companies**

The equity in net income of associated companies was $56.3 million in 1986, compared with $123.5 million in 1985 and $115.1 million in 1984. The decrease in 1986 reflects the reduction of TCPL's income, primarily because of the fall in world energy prices. TCPL also recorded investment and asset provisions of $114.5 million, principally relating to its oil and gas properties. BCE's share of TCPL's writedowns represents a reduction of $21.2 million in equity income for 1986.

**Liquidity and Capital Resources**

The principal requirement for funds is for capital expenditures and to acquire new and additional investments.

Consolidated net capital expenditures during 1986 were $2,753.3 million, compared with $2,427.9 million in 1985 and $1,961.6 million in 1984. Substantially all such capital expenditures were made by subsidiaries, particularly Bell Canada, Northern Telecom and BCED.

Consolidated investments acquired during the last three years amounted to $584.9 million in 1986, $477.6 million in 1985 and $273.3 million in 1984. The amount for 1986 included additional investments of $138.8 million in non-consolidated finance subsidiaries, and $207.0 million in TCPL, as well as investments of $196.5 million in BCE Development Properties Inc. The amount for 1985 included additional investments of $144.4 million in non-consolidated finance subsidiaries, $51.3 million in TCPL, and $10.5 million in Bruncor Inc., as well as investments of $162.9 million in BCED and $35.2 million in Computer Innovations Distribution Inc. The amount for 1984 included additional investments of $108.8 million in TCPL, as well as investments in British American Bank Note Inc. and The Case-Hoyt Corporation.

*Bell Canada Enterprises Inc.*

BCE raised $662.9 million of common equity during the year 1986: $200 million from the issuance of 4,958,718 common shares privately placed, $191.8 million from the issuance of 5,000,000 common shares in a public offering in Japan and $271.1 million by means of the Dividend Reinvestment and Stock Purchase Plan and the Optional Stock Dividend Program. The decrease of $112.7 million in 1986 from the Dividend Reinvestment and Stock Purchase Plan is mainly due to the introduction of changes to Quebec income tax legislation with respect to individuals resident in the province of Quebec. BCE's net short-term borrowings amounted to $95.3 million at December 31, 1986, compared with $8.9 million at December 31, 1985. In March 1986, BCE purchased $150 million of Bell Canada common shares and, in July 1986, BCE redeemed $75 million of the Second Preferred Shares, Series One, held by Bell Canada. In June 1986, BCE invested $200 million in BCED. In July 1986, BCE purchased 8,972,278 TCPL units, at $16.75 each, for an aggregate cash consideration of $150.3 million.

*Bell Canada*

Gross capital expenditures were $1,648 million in 1986, compared with $1,409 million in 1985, reflecting the growth in demand for services. Based on Bell Canada's current budget, it is estimated that Bell Canada's capital expenditure program in 1987 will increase by approximately eight per cent to $1,786 million.

Bell Canada's cash requirements in 1987, except for approximately one-third of the capital expenditures and the repayment of long-term debt and term bank loan, of which approximately $184 million matures during the year, will be met by internally generated funds. External funding to meet the additional cash requirements is expected to include the offering of debt and preferred equity securities to the public and the issue of additional common equity to BCE. During 1986 and 1985, funds from external sources amounted to $700 million and $525 million, respectively. These funds were obtained through issues of debentures in Europe and Canada, for total amounts of $325 million in 1986 and $250 million in 1985; and issues of preferred shares to the public, for $150 million in 1986 and $125 million in 1985. BCE also provided funds through the purchase of common shares in 1986 and the redemption of its Second Preferred Shares, Series One, held by Bell Canada.

*Northern Telecom*

Capital expenditures in 1986 of $421.9 million declined from the higher levels of 1985 ($623.8 million) and 1984 ($569.6 million), reflecting the completion of major programs to build new facilities and to expand capacity. Capital spending in 1986 was mainly for new product processes and cost improvements. Capital expenditures in 1987 are estimated to total approximately $550 million and are expected to be financed internally.

*BCED*

In the second quarter of 1986, BCED completed the acquisition of Oxford Properties Inc., subsequently renamed BCE Development Properties Inc., for $196.5 million inclusive of acquisition costs. To finance the acquisition and to repay existing corporate debt, BCED sold in Canada and Europe 66.7 million units, each unit consisting of one common share and one-half of a common share purchase warrant. The units were sold in June 1986 for an aggregate cash consideration of approximately $300 million, including $200 million purchased by BCE. In addition to the acquisition price, BCED anticipates investing a further (US) $250 million to bring the acquired properties to full occupancy. To fund these expenditures, BCED arranged in December 1986 a private placement of preferred shares with BCE in the amount of (US) $125 million and plans to carry out further preferred share financing in Canada in 1987.

## Consolidated Financial Statements

## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Bell Canada Enterprises Inc. and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Touche Ross & Co., chartered accountants, and their report is presented below.

Donald R. Newman
Vice-President and Comptroller

## Auditors' Report

The Shareholders, Bell Canada Enterprises Inc.

We have examined the consolidated balance sheets of Bell Canada Enterprises Inc. and subsidiaries as at December 31, 1986 and 1985 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1986 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montreal, Quebec
February 12, 1987

## Consolidated Income Statement

| | For the years ended December 31 | 1986 | 1985 | 1984 |
|---|---|---|---|---|
| | | millions of dollars | | |
| **Telecommunications operations** | Operating revenues | **$6,541.1** | $6,032.2 | $5,540.9 |
| | Operating expenses | **4,698.2** | 4,297.1 | 3,955.2 |
| | **Net revenues — telecommunications operations** | **1,842.9** | **1,735.1** | **1,585.7** |
| **Telecommunications equipment manufacturing** | Revenues (note 1) | **6,036.1** | 5,766.3 | 4,321.0 |
| | Cost of revenues | **3,740.7** | 3,647.9 | 2,642.1 |
| | Selling, general, administrative and other expenses | **1,712.9** | 1,537.5 | 1,209.2 |
| | | **5,453.6** | 5,185.4 | 3,851.3 |
| | **Net revenues — telecommunications equipment manufacturing** | **582.5** | **580.9** | **469.7** |
| **Real estate operations** | Operating revenues | **291.9** | 408.1 | 1.1 |
| | Operating expenses | **281.5** | 403.3 | .9 |
| | **Net revenues — real estate operations** | **10.4** | **4.8** | **.2** |
| **Other operations** | Operating revenues | **1,063.4** | 1,050.8 | 715.7 |
| | Operating expenses | **876.7** | 877.4 | 604.0 |
| | **Net revenues — other operations** | **186.7** | **173.4** | **111.7** |
| | **Total net revenues** | **2,622.5** | **2,494.2** | **2,167.3** |
| **Other income (expense)** | Equity in net income of associated companies (note 2) | **56.3** | 123.5 | 115.1 |
| | Allowance for funds used during construction | **27.6** | 22.7 | 21.2 |
| | Interest — long-term debt | **(566.3)** | (522.3) | (458.9) |
| | — other debt | **(48.3)** | (69.8) | (68.3) |
| | Unrealized foreign currency losses (notes 1 and 17) | **(37.7)** | (37.8) | (21.0) |
| | Miscellaneous — net | **152.7** | 123.1 | 112.5 |
| | | **(415.7)** | **(360.6)** | **(299.4)** |
| | Income before income taxes and minority interest | **2,206.8** | 2,133.6 | 1,867.9 |
| | Income taxes (note 4) | **931.9** | 847.3 | 747.2 |
| | Income before minority interest | **1,274.9** | 1,286.3 | 1,120.7 |
| | Minority interest | **251.3** | 235.5 | 180.4 |
| | **Net income** (notes 17 and 20) | **1,023.6** | **1,050.8** | **940.3** |
| | Dividends on first preferred shares | **37.4** | 41.8 | 46.1 |
| | **Net income applicable to common shares** | **$ 986.2** | **$1,009.0** | **$ 894.2** |
| **Earnings per share** | Earnings per common share (notes 5, 17 and 20) | **$3.83** | $4.23 | $4.03 |
| | Assuming full dilution | **$3.77** | $4.13 | $3.92 |
| | Dividends declared per common share | **$2.37** | $2.30 | $2.205 |
| | Average common shares outstanding (thousands) | **257,623** | 238,541 | 221,702 |

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 17.

# Consolidated Balance Sheet

**Assets**

| | As at December 31 | **1986** | 1985 |
|---|---|---|---|
| | | millions of dollars | |
| **Current assets** | Cash and temporary cash investments — at cost (approximates market) | **$ 679.6** | $ 279.5 |
| | Accounts receivable — principally from customers, including $31.9 (1985 — $27.0) from associated companies, and less $69.6 (1985 — $59.2) for provision for uncollectibles | **2,802.2** | 2,458.4 |
| | Inventories (note 7) | **1,043.8** | 1,219.9 |
| | Other (principally prepaid expenses) | **163.4** | 147.2 |
| | | **4,689.0** | **4,105.0** |
| **Investments** (at equity) | Associated companies (notes 1 and 2) | **1,315.1** | 1,111.0 |
| | Non-consolidated finance subsidiaries (notes 1 and 3) | **875.2** | 691.4 |
| | | **2,190.3** | **1,802.4** |
| **Property, plant and equipment** (note 8) | At cost | **22,536.6** | 20,016.8 |
| | Less: Accumulated depreciation | **7,034.0** | 6,519.3 |
| | | **15,502.6** | **13,497.5** |
| **Other assets** | Long-term notes and receivables | **823.9** | 632.3 |
| | Deferred charges — unrealized foreign currency losses, less amortization | **295.8** | 347.9 |
| | — other | **149.9** | 143.4 |
| | Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1) | **62.1** | 54.9 |
| | | **1,331.7** | **1,178.5** |
| | **Total assets** | **$23,713.6** | **$20,583.4** |

On behalf of the Board of Directors:

Warren Chippindale
Director

Marcel Bélanger
Director

**Liabilities and Shareholders' Equity**

| As at December 31 | | 1986 | 1985 |
|---|---|---|---|
| | | millions of dollars | |
| **Current liabilities** | Accounts payable | **$ 1,997.1** | $ 1,760.2 |
| | Advanced billing and payments | **119.4** | 104.7 |
| | Dividends payable | **176.5** | 160.4 |
| | Taxes accrued (note 4) | **338.2** | 340.4 |
| | Interest accrued | **127.4** | 123.6 |
| | Debt due within one year (note 9) | **868.0** | 733.6 |
| | | **3,626.6** | **3,222.9** |
| **Long-term debt** | Long-term debt (including unrealized foreign currency losses) (note 10) | **6,683.3** | **5,639.7** |
| **Deferred credits** | Income taxes | **1,929.0** | 1,765.5 |
| | Other | **512.6** | 439.8 |
| | | **2,441.6** | **2,205.3** |
| **Minority interest in subsidiary companies** | Preferred shares | **836.0** | 676.1 |
| | Common shares | **1,502.8** | 1,217.5 |
| | | **2,338.8** | **1,893.6** |
| **Preferred shares** | Preferred shares (redeemable) (note 11) | **257.2** | **312.9** |
| **Common shareholders' equity** | Stated capital of common shares (note 12) | **4,099.2** | 3,381.5 |
| | Contributed surplus | **1,033.5** | 1,033.5 |
| | Retained earnings | **3,115.4** | 2,756.8 |
| | Foreign exchange adjustment (note 13) | **118.0** | 137.2 |
| | | **8,366.1** | **7,309.0** |
| **Commitments and contingent liabilities** (notes 6 and 10) | | | |
| | **Total liabilities and shareholders' equity** | **$23,713.6** | **$20,583.4** |

Donald R. Newman
Vice-President and Comptroller

# Consolidated Statement of Retained Earnings

| For the years ended December 31 | **1986** | 1985 | 1984 |
|---|---|---|---|
| | millions of dollars | | |
| **Balance at beginning of year** | **$2,756.8** | $2,301.3 | $1,902.0 |
| Net income | **1,023.6** | 1,050.8 | 940.3 |
| | **3,780.4** | 3,352.1 | 2,842.3 |
| Deduct: | | | |
| Dividends | | | |
| First preferred shares | **37.4** | 41.8 | 46.1 |
| Common shares | **615.0** | 550.1 | 491.0 |
| | **652.4** | 591.9 | 537.1 |
| Expenses of issues of share capital | **12.6** | 3.4 | 3.9 |
| | **665.0** | 595.3 | 541.0 |
| **Balance at end of year** | **$3,115.4** | $2,756.8 | $2,301.3 |

# Consolidated Statement of Changes in Financial Position

| For the years ended December 31 | 1986 | 1985 | 1984 |
|---|---|---|---|
| | | millions of dollars | |
| **Cash provided from (used for) operating activities** | | | |
| Net income | **$1,023.6** | $1,050.8 | $ 940.3 |
| Items not affecting cash | | | |
| Depreciation | **1,411.7** | 1,312.2 | 1,152.1 |
| Minority interest | **251.3** | 235.5 | 180.4 |
| Deferred income taxes | **163.5** | 52.1 | 161.9 |
| Equity in net income of associated companies lower than (in excess of) dividends received | **18.3** | (58.5) | (60.8) |
| Equity in earnings of non-consolidated finance subsidiaries | **(64.8)** | (44.6) | (55.9) |
| Allowance for funds used during construction | **(27.6)** | (22.7) | (21.2) |
| Other items | **26.4** | 117.3 | 82.1 |
| Cash recovery from real estate sales (net of related debt of $132.6 in 1986, 1985 — $269.0) | **95.3** | 99.8 | — |
| (Increase) decrease in working capital (note 15) | **85.4** | (119.2) | (645.4) |
| | **2,983.1** | **2,622.7** | **1,733.5** |
| **Cash provided from (used for) financing activities** | | | |
| Proceeds from long-term debt | **674.5** | 682.1 | 285.3 |
| Reduction of long-term debt | **(520.6)** | (419.3) | (171.6) |
| Issue of common shares | | | |
| Underwritten and privately placed issues | **387.9** | — | — |
| Dividend Reinvestment and Stock Purchase Plan | **266.2** | 378.9 | 379.2 |
| Optional Stock Dividend Program | **4.1** | 17.6 | 17.6 |
| On acquisition of subsidiaries | — | — | 111.1 |
| Issues of common and preferred shares by subsidiaries to minority shareholders | **286.9** | 257.6 | 403.0 |
| Notes payable and bank advances | **251.9** | (334.4) | 223.2 |
| Amounts due to non-consolidated finance subsidiaries | **(36.8)** | 146.5 | (18.0) |
| Dividends from non-consolidated finance subsidiaries | **10.1** | 7.9 | 23.5 |
| Other items | **106.5** | (5.5) | (6.8) |
| | **1,430.7** | **731.4** | **1,246.5** |
| **Cash provided from (used for) investing activities** | | | |
| Capital expenditures (net) | **(2,753.3)** | (2,427.9) | (1,961.6) |
| Investments (less working capital of $115.4 acquired in 1985) | **(584.9)** | (362.2) | (235.2) |
| Long-term notes and receivables | **40.7** | (78.0) | (267.3) |
| Other items | **23.4** | 127.5 | 96.1 |
| | **(3,274.1)** | **(2,740.6)** | **(2,368.0)** |
| **Dividends declared by** | | | |
| The parent corporation | **(652.4)** | (591.9) | (537.1) |
| Subsidiaries to minority shareholders | **(87.2)** | (72.3) | (46.8) |
| | **(739.6)** | **(664.2)** | **(583.9)** |
| **Cash and temporary cash investments** | | | |
| Increase (decrease) | **400.1** | (50.7) | 28.1 |
| At beginning of year | **279.5** | 330.2 | 302.1 |
| **At end of year** | **$ 679.6** | **$ 279.5** | **$ 330.2** |

# Notes to Consolidated Financial Statements

## 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. Certain previously reported figures have been reclassified to conform with the current presentation.

With respect to the consolidated financial statements of BCE, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 17.

**Consolidation**

The consolidated financial statements include the accounts of all majority-owned subsidiaries, either direct or indirect, except for finance subsidiaries of Northern Telecom Limited. These non-consolidated finance subsidiaries and the investments in associated companies (20% to 50% owned) are accounted for by the equity method. The finance subsidiaries are not consolidated because their business is fundamentally different from that of the consolidated group.

At December 31, 1986, the direct subsidiaries of BCE (all 100% owned, unless otherwise indicated) included Bell Canada, Northern Telecom Limited (52.3%), BCE PubliTech Inc., NewTel Enterprises Limited (54.2%), Télébec Ltée, Northern Telephone Limited (99.8%), Bell Canada International Inc., BCE Development Corporation (BCED) (65.8%), BCE Realty Inc. and BCE Commcor Inc. which was acquired from Bell Canada on December 31, 1986. On April 1, 1986, BCE PubliTech Inc. was created by merging Tele-Direct (Canada) Inc. and one of its subsidiaries.

BCED, a real estate development corporation, was acquired in the first quarter of 1985 for a cash consideration of $162.9 million, including $39 million for newly issued shares of BCED. The excess of cost over fair value, at time of acquisition, was fully allocated to real estate properties which were sold in the third quarter of 1985. In 1986, BCED acquired all of the outstanding shares of Oxford Properties Inc., subsequently renamed BCE Development Properties Inc., for $196.5 million inclusive of acquisition costs. At acquisition date, the total fair value of asset acquired was $1,290.5 million including commercial properties of $1,053.3 million located in five major U.S. cities; and the liabilities assumed were $1,094.0 million including debt on commercial properties of $826.6 million.

The excess of cost of shares over acquired equity (goodwill) of subsidiary and associated companies is being amortized to earnings on a straight-line basis over its estimated life. The amortization, over varying periods up to 20 years, amounted to $20.5 million in 1986 (1985 — $17.5, 1984 — $32.7).

Telecommunications equipment purchased by Bell Canada and the other telephone subsidiaries of BCE from Northern Telecom Limited and its subsidiaries is reflected in BCE's consolidated balance sheets at the cost to the purchasing companies and is included in telecommunications equipment manufacturing revenues in the consolidated income statement. To the extent that any income related to these revenues and those from associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed with respect to activities of regulated industries. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

## 1. ACCOUNTING POLICIES (continued)

Telecommunications equipment manufacturing revenues comprise:

| | 1986 | 1985 | 1984 |
|---|---|---|---|
| | | millions of dollars | |
| Revenues from | | | |
| Bell Canada | **$1,147.0** | $ 989.4 | $ 763.9 |
| Other telephone subsidiary and associated companies of BCE | **109.6** | 96.9 | 82.4 |
| **Sub-total** | **1,256.6** | **1,086.3** | **846.3** |
| Revenues from others | **4,779.5** | 4,680.0 | 3,474.7 |
| **Total revenues** | **$6,036.1** | **$5,766.3** | **$4,321.0** |

**Depreciation**

Depreciation is generally computed on the straight-line method using rates based on the estimated useful lives of the assets.

**Research and development**

All research and development costs incurred, which amounted to $787.6 million (1985 — $706.5, 1984 — $543.1), were charged to income.

**Translation of foreign currencies**

Foreign operations are classified as integrated or self-sustaining.

— Integrated foreign operations and transactions denominated in foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long-term monetary assets and liabilities are translated at the rates in effect at the balance sheet date; whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year, except for cost of inventory used, depreciation and amortization, which are translated at exchange rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year, except for unrealized foreign currency gains and losses on long-term monetary assets and liabilities, which are reported as a deferred charge and amortized over the remaining lives of the related items on a straight-line basis.

— Self-sustaining foreign operations

Assets and liabilities denominated in a foreign currency are translated in Canadian dollars at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in a separate component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the year.

**Leases**

Leases are classified as capital or operating leases. When the corporation is the lessor, rental revenue from operating leases is recognized as service is provided to customers. For leases which qualify as sales-type leases, the sales revenue is recorded at the inception of the lease. When the corporation is the lessee, assets recorded under capital leases are amortized on a straight-line method, using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under the capital leases are reduced by rental payments net of imputed interest.

## 1. ACCOUNTING POLICIES (continued)

**Inventories**

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) or net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

**Allowance for funds used during construction**

Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

**Consulting services**

The consulting services under contract to clients, principally foreign telecommunications organizations, are included in other operations. The percentage-of-completion accounting method is used in the determination of income from such operations.

**Real estate activities**

Certain indirect costs, including interest, are capitalized. The interest capitalized amounted to $100.5 million for the year ended December 31, 1986 (1985 — $44.6).

**Income taxes**

BCE and its subsidiaries use the tax allocation basis of accounting for income taxes. The corporation provides for income taxes based on accounting income for tax purposes included in the financial statements, regardless of when such income is subject to taxes under the tax laws. Investment tax credits reduce the provision for income taxes in the same periods in which the related expenditures are charged to earnings.

## 2. INVESTMENTS IN ASSOCIATED COMPANIES

BCE uses the equity method of accounting for investments in companies where the ownership ranges from 20% to 50%. Under this accounting method, BCE's proportionate share of income of such companies, from the dates of their acquisition, net of amortization of excess purchase price over net assets acquired, is taken into income and added to the cost of investments. Dividends received by BCE from these companies reduce the carrying amounts of the investments. The principal associated company of BCE is TransCanada PipeLines Limited (TCPL) which was acquired in late 1983.

## 2. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

The following is a summary of the investments in associated companies for the last three years:

| | | millions of dollars | | | | |
|---|---|---|---|---|---|---|
| | | TransCanada PipeLines Limited(1) | Maritime Telegraph and Telephone Company, Limited (MT&T)(2) | Bruncor Inc. | Other companies | Total |
| **1984** | Balance — January 1, 1984 | $ 600.9 | $61.1 | $54.7 | $45.2 | $ 761.9 |
| | BCE's ownership | *42.3%* | *32.5%* | *32.5%* | | |
| | Cost of investments | $ 108.8 | $ — | $ — | $ 4.3 | $ 113.1 |
| | Equity income | 91.5 | 9.5 | 8.7 | 5.4 | 115.1 |
| | Dividends received | (42.1) | (5.6) | (5.6) | (1.0) | (54.3) |
| | Other adjustments | 18.1 | .1 | .1 | (8.8) | 9.5 |
| | Balance — December 31, 1984 | $ 777.2 | $65.1 | $57.9 | $45.1 | $ 945.3 |
| | BCE's ownership | *47.2%* | *31.4%* | *31.3%* | | |
| **1985** | Cost of investments | $ 51.3 | $ 3.0 | $10.5 | $36.9 | $ 101.7 |
| | Equity income | 101.6 | 11.1 | 8.1 | 2.7 | 123.5 |
| | Dividends received | (51.9) | (6.1) | (6.0) | (1.0) | (65.0) |
| | Other adjustments | 5.9 | .2 | — | (.6) | 5.5 |
| | Balance — December 31, 1985 | $ 884.1 | $73.3 | $70.5 | $83.1 | $1,111.0 |
| | BCE's ownership | *47.8%* | *31.4%* | *30.7%* | | |
| **1986** | Cost of investments | $ 207.0 | $ 6.5 | $ 5.3 | $11.0 | $ 229.8 |
| | Equity income | 30.5 | 10.0 | 9.1 | 6.7 | 56.3 |
| | Dividends received | (60.2) | (6.6) | (6.8) | (1.0) | (74.6) |
| | Other adjustments | (5.9) | — | — | (1.5) | (7.4) |
| | Balance — December 31, 1986 | $1,055.5 | $83.2 | $78.1 | $98.3 | $1,315.1 |
| | BCE's ownership | *48.5%* | *32.0%* | *31.2%* | | |

(1) At December 31, 1986, BCE owned 59,711,369 common shares of TCPL which represented 48.5% of the outstanding shares at that date. BCE acquired 38,449,192 shares in December 1983, 6,509,825 shares in 1984, 2,314,839 shares in 1985 and 12,437,513 shares in 1986. The cost of investment in 1986 includes $150.3 million for 8,972,278 Units of TCPL, consisting of an equal number of common shares and 4,486,139 common share purchase warrants (each of which entitles the holder to purchase, until July 13, 1989, one common share of TCPL at $19.25). This July 1986 purchase, made concurrently with a public offering of Units by TCPL, maintained BCE's proportionate ownership interest in TCPL. BCE's equity income in TCPL is based on TCPL's net income applicable to common shares, before investment and asset provisions, less BCE's amortization of goodwill (which is being amortized over 20 years) and less BCE's share of TCPL's 1986 investment and asset provisions. TCPL's 1986 investment and asset provisions of $114.5 million, which includes a $100.6 million writedown of its oil and gas properties, reduced BCE's equity income by $21.2 million.

(2) At December 31, 1986, BCE owned 7,179,341 common shares of MT&T. However, under a statute passed in 1966 by the Legislature of Nova Scotia, no more than 1,000 shares may be voted by any one shareholder.

## 2. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

**Results and financial position of TCPL**
The following is a summary of TCPL's reported results and financial position:

| | **1986** | 1985 | 1984 |
|---|---|---|---|
| | millions of dollars | | |
| Revenues | **$4,145.3** | $4,701.5 | $4,472.5 |
| Income before provisions | **$ 175.1** | $ 278.1 | $ 265.9 |
| Investment and asset provisions | **$ 114.5** | $ 115.6 | $ 18.0 |
| Net income | **$ 60.6** | $ 162.5 | $ 247.9 |
| Income, before provisions, applicable to common shares | **$ 132.3** | $ 233.3 | $ 224.4 |

| | **December 31, 1986** | December 31, 1985 |
|---|---|---|
| | millions of dollars | |
| Total assets | **$5,969.3** | $6,322.2 |
| Total liabilities | **$3,867.0** | $4,503.7 |
| Preferred shareholders' equity | **$ 444.4** | $ 445.0 |
| Common shareholders' equity | **$1,657.9** | $1,373.5 |

## 3. NON-CONSOLIDATED FINANCE SUBSIDIARIES

In the consolidated income statement of BCE, income from operations and foreign currency gains or losses of the finance subsidiaries of Northern Telecom Limited are included in Other income — miscellaneous; their income taxes are included with consolidated income taxes. The interest paid by Northern Telecom Limited and its consolidated subsidiaries to the finance subsidiaries, which is included in consolidated interest on long-term debt, amounted to $41.6 million for the year ended December 31, 1986 (1985 — $34.3, 1984 — $37.9).

The following is a summary of the combined financial data of these companies:

| | **1986** | 1985 | 1984 |
|---|---|---|---|
| | millions of dollars | | |
| Income | **$124.9** | $103.4 | $86.2 |
| Income from operations | **$ 69.3** | $ 54.3 | $61.5 |
| Net income | **$ 64.8** | $ 44.6 | $55.9 |

| | **December 31, 1986** | December 31, 1985 |
|---|---|---|
| | millions of dollars | |
| Total assets | **$1,278.0** | $1,171.3 |
| Total liabilities | **$ 402.8** | $ 479.9 |
| Shareholders' equity | **$ 875.2** | $ 691.4 |

## 4. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

| | 1986 | 1985 | 1984 |
|---|---|---|---|
| Statutory income tax rate in Canada | **49.8%** | 48.5% | 47.6% |
| (i) Allowance for funds used during construction, net of applicable depreciation adjustment | **(.2)** | (.1) | (.1) |
| (ii) Reduction of Canadian federal taxes applicable to manufacturing profits | **(.9)** | (.5) | (.8) |
| (iii) Equity in net income of associated companies | **(1.3)** | (2.8) | (2.9) |
| (iv) Tax incentives on research and development expenditures | **(2.9)** | (4.2) | (2.7) |
| (v) Inventory credit | **—** | (.4) | (.3) |
| (vi) Difference between Canadian statutory rates and those applicable to foreign subsidiaries | **(.7)** | (.5) | (.8) |
| (vii) Other | **(1.6)** | (.3) | — |
| **Effective income tax rate** | **42.2%** | **39.7%** | **40.0%** |

Details of the income taxes are as follows:

| | 1986 | 1985 | 1984 |
|---|---|---|---|
| | | millions of dollars | |
| Income before income taxes and minority interest | | | |
| Canadian | **$1,703.0** | $1,524.7 | $1,499.7 |
| Foreign | **503.8** | 608.9 | 368.2 |
| **Total income before income taxes and minority interest** | **$2,206.8** | **$2,133.6** | **$1,867.9** |
| Income taxes | | | |
| Canadian | **$ 767.2** | $ 622.4 | $ 634.1 |
| Foreign | **164.7** | 224.9 | 113.1 |
| **Total income taxes** | **$ 931.9** | **$ 847.3** | **$ 747.2** |
| Income taxes | | | |
| Current | **$ 741.2** | $ 681.4 | $ 585.3 |
| Deferred | **190.7** | 165.9 | 161.9 |
| **Total income taxes** | **$ 931.9** | **$ 847.3** | **$ 747.2** |

The deferred income taxes for 1986 include $27.2 million (1985 — $113.8), mainly due to tax effects of Northern Telecom's contracts in progress, classified as current liabilities and included in taxes accrued. The remaining deferred income taxes result principally from deductions for tax purposes, in respect of plant, in excess of amounts currently charged to operations.

## 5. EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of shares outstanding.

For the computation of earnings per share, assuming full dilution, dividends on dilutive convertible preferred shares have been added back to income.

## 6. COMMITMENTS AS LESSEE

At December 31, 1986, the future minimum lease payments under capital leases and operating leases with initial non-cancellable lease terms in excess of one year were as follows:

| | millions of dollars | |
|---|---|---|
| | Capital leases | Operating leases |
| 1987 | $ 23.4 | $164.5 |
| 1988 | 20.8 | 128.6 |
| 1989 | 20.9 | 91.6 |
| 1990 | 15.4 | 56.3 |
| 1991 | 15.4 | 33.5 |
| Thereafter | 97.8 | 252.6 |
| Total future minimum lease payments | 193.7 | $727.1 |
| Less: Estimated executory costs | 75.9 | |
| Net minimum lease payments | 117.8 | |
| Less: Imputed interest | 53.5 | |
| **Present value of net minimum lease payments** | **$ 64.3** | |

Rental expense applicable to all operating leases for the year 1986 was $244.4 million (1985 — $215.4, 1984 — $191.8).

## 7. INVENTORIES

| | **December 31, 1986** | December 31, 1985 |
|---|---|---|
| | millions of dollars | |
| Raw materials | **$ 272.0** | $ 362.5 |
| Work-in-process | **334.1** | 393.0 |
| Finished goods | **437.7** | 464.4 |
| | **$1,043.8** | **$1,219.9** |

## 8. PROPERTY, PLANT AND EQUIPMENT

| | December 31, 1986 | | December 31, 1985 | |
|---|---|---|---|---|
| | millions of dollars | | | |
| | Cost | Net of accumulated depreciation | Cost | Net of accumulated depreciation |
| Telecommunications operations | | | | |
| Buildings, plant and equipment | **$16,312.6** | **$10,715.7** | $15,632.8 | $10,221.3 |
| Land | **89.1** | **89.1** | 89.2 | 89.2 |
| Plant under construction | **374.4** | **374.4** | 289.6 | 289.6 |
| Material and supplies | **78.6** | **78.6** | 77.5 | 77.5 |
| | **16,854.7** | **11,257.8** | **16,089.1** | **10,677.6** |
| Telecommunications equipment manufacturing | | | | |
| Buildings, plant and equipment | **2,692.8** | **1,478.8** | 2,395.4 | 1,452.5 |
| Land | **34.9** | **34.9** | 34.5 | 34.5 |
| | **2,727.7** | **1,513.7** | **2,429.9** | **1,487.0** |
| Real estate operations | | | | |
| Commercial properties | **1,691.2** | **1,687.2** | 281.1 | 276.8 |
| Land held for future development | **551.0** | **551.0** | 649.9 | 649.9 |
| Other properties | **114.9** | **111.1** | 159.4 | 151.1 |
| | **2,357.1** | **2,349.3** | **1,090.4** | **1,077.8** |
| Other operations | | | | |
| Buildings, plant and equipment | **582.4** | **367.1** | 393.1 | 240.8 |
| Land | **14.7** | **14.7** | 14.3 | 14.3 |
| | **597.1** | **381.8** | **407.4** | **255.1** |
| | **$22,536.6** | **$15,502.6** | **$20,016.8** | **$13,497.5** |
| Capitalized leases included in the above amounts | **$ 105.1** | **$ 65.1** | $ 105.7 | $ 70.2 |

## 9. DEBT DUE WITHIN ONE YEAR

| | December 31, 1986 | December 31, 1985 |
|---|---|---|
| | millions of dollars | |
| Long-term debt — current portion | **$391.6** | $509.1 |
| Notes payable | **227.1** | 200.4 |
| Bank advances | **249.3** | 24.1 |
| | **$868.0** | $733.6 |

## 10. LONG-TERM DEBT

| | Total outstanding December 31, 1986 | 1985 |
|---|---|---|
| | millions of dollars | |
| **Bell Canada Enterprises Inc. (BCE)** | | |
| 11⅝% Notes due 1990 | $ 50.0 | $ 50.0 |
| 10¼% Notes due 1990 | 100.0 | 100.0 |
| **Total — BCE** | ***150.0*** | ***150.0*** |

**Bell Canada**

| Rate of interest | 4.8-7⅞% | 8-9⅞% | 10-12¾% | 13⅜-16% | 1986 | 1985 |
|---|---|---|---|---|---|---|
| First mortgage bonds | | | | | | |
| Due 1986 | $ — | $ — | $ — | $ — | — | 37.0 |
| 1987 | 35.0 | 2.0 | — | — | 37.0 | 37.0 |
| 1988 | 119.0 | 2.0 | — | — | 121.0 | 121.9 |
| 1989 | 69.0 | 11.5 | — | — | 80.5 | 81.4 |
| 1990 | 30.0 | 52.6 | — | — | 82.6 | 82.6 |
| 1991 | 56.5 | 2.0 | — | — | 58.5 | 58.5 |
| 1992-2001 | 431.6 | 604.6 | 71.0 | — | 1,107.2 | 1,113.4 |
| 2002-2004 | 11.1 | 53.8 | — | — | 64.9 | 65.7 |
| | **752.2** | **728.5** | **71.0** | **—** | **1,551.7** | **1,597.5** |
| Debentures and notes | | | | | | |
| Due 1986 | — | — | — | — | — | 143.9 |
| 1987 | 3.4 | — | — | — | 3.4 | 142.5 |
| 1988 | 3.4 | — | — | — | 3.4 | 2.7 |
| 1989 | 3.4 | — | — | 100.0 | 103.4 | 102.7 |
| 1990 | 3.4 | — | 22.0 | — | 25.4 | 24.7 |
| 1991 | 3.4 | — | 50.0 | 207.1 | 260.5 | 212.3 |
| 1992-2000 | 68.7 | — | 125.0 | 125.0 | 318.7 | 304.5 |
| 2002-2010 | — | 1,177.2 | 425.0 | 276.1 | 1,878.3 | 1,613.5 |
| | **85.7** | **1,177.2** | **622.0** | **708.2** | **2,593.1** | **2,546.8** |
| Obligations under capital leases | | | | | 22.0 | 24.2 |
| Other | | | | | 36.2 | 37.5 |
| **Total — Bell Canada** | | | | | ***4,203.0*** | ***4,206.0*** |
| **BCE Development Corporation** | | | | | ***1,812.5*** | ***879.6*** |
| **Other subsidiaries** | | | | | | |
| Including $406.9 million (1985 — $443.7) owed to non-consolidated finance subsidiaries | | | | | ***909.4*** | ***913.2*** |
| **Sub-total — BCE consolidated** | | | | | ***7,074.9*** | ***6,148.8*** |
| Less: Due within one year | | | | | 391.6 | 509.1 |
| **Total — BCE consolidated** | | | | | **$6,683.3** | **$5,639.7** |

## 10. LONG-TERM DEBT (continued)

Interest payments under BCE's 10¼% Notes due 1990 have been converted to a floating interest rate by way of an interest rate conversion agreement.

The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge of Bell Canada.

First mortgage bonds of Bell Canada include (US) $518 million maturing from 1988 to 2004. Debentures and notes include (US) $750 million maturing from 1991 to 2010 and 100 million Swiss francs maturing in 1993.

At December 31, 1986, the consolidated debt of BCE Development Corporation (BCED) included project debt amounting to $1,786.1 million, of which $944.7 million is non-recourse debt secured by individual properties of BCED or mortgages and agreements for sale.

At December 31, 1986, the debt of non-consolidated finance subsidiaries of Northern Telecom Limited, due to third parties, was $163.3 million (1985 — $191.0).

At December 31, 1986, the estimated amounts of long-term debt payable by the corporation in the years 1987 to 1991 were $391.6, $368.3, $599.6, $447.0 and $470.9 million, respectively.

## 11. PREFERRED SHARES

**Authorized**

The restated articles of incorporation of BCE provide for an unlimited number of first preferred shares and second preferred shares. The articles authorize the Directors to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching thereto, prior to their issue.

| | **December 31, 1986** | | December 31, 1985 | |
|---|---|---|---|---|
| | dollars in millions | | | |
| **Outstanding** | Number of shares | Stated capital | Number of shares | Stated capital |
| First Preferred Shares | | | | |
| $1.80 shares, series F* | **—** | $ — | 2,492,717 | $ 49.9 |
| $1.96 shares, series G | **233,326** | **5.8** | 271,169 | 6.8 |
| $2.05 shares, series H | **790,588** | **15.8** | 1,030,306 | 20.6 |
| $2.70 shares, series I | **11,777,353** | **235.6** | 11,781,918 | 235.6 |
| **Aggregate stated capital of outstanding First Preferred Shares** | | **$257.2** | | **$312.9** |
| **Second Preferred Shares, Series One**** | **787,427** | **$ 78.7** | **1,537,427** | **$153.7** |

* The $1.80 preferred shares were convertible on the basis of one preferred share for .67 of a common share. Shares outstanding (42,761) on November 4, 1986, were redeemed on that date at $21.365 per share, including accrued dividend of $0.165.

** These shares have an annual dividend of $9 per share. Upon consolidation, these shares and related dividends have been eliminated in the consolidated financial statements of BCE, because they are held by Bell Canada, a wholly owned subsidiary. These shares have a redemption value equal to their stated capital and, under applicable corporate legislation, have to be disposed of by Bell Canada or redeemed by BCE by April 28, 1988.

## 11. PREFERRED SHARES (continued)

Following is a brief summary of the material characteristics of the first preferred shares:

| | Redeemable at BCE's option | Preferred to common conversion basis | Convertible to | Number of shares converted at December 31, 1986 | Purchase fund requirements (c) |
|---|---|---|---|---|---|
| **First Preferred Shares** (a) | | | | | |
| $1.96 shares | Redeemable at $25. | 1 for 1.2 | May 1, 1990 | 6,766,674 including 1986 — 37,843 (1985 — 83,245) (1984 — 156,632) | Quarterly 87,500 shares |
| $2.05 shares | Redeemable at $20. | 1 for 1 | Apr. 15, 1992 | 9,209,412 including 1986 — 239,718 (1985 — 854,178) (1984 — 1,973,430) | Quarterly 125,000 shares commencing in 1988 |
| $2.70 shares | On March 15, 1988, at $21.20 per share to March 15, 1989, and at reducing amounts thereafter to $20 after March 15, 1992. (b) | 1 for 1 | Mar. 15, 1992 | 35,147 including 1986 — 4,565 (1985 — 20,815) (1984 — 5,965) | (c)(2) |

(a) All the first preferred shares are convertible into common shares. The first preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each series and have one vote per share.

(b) In the event that not more than 1,771,875 of the $2.70 preferred shares remain outstanding, BCE may redeem all, but not part, of such shares at $20 per share.

(c) Purchase funds:

Under the terms and conditions of the purchase funds,

(1) BCE shall make all reasonable efforts to purchase the required number of shares in the open market for cancellation at a price not exceeding the stated capital per share plus costs of purchase. To the extent that BCE is unable to purchase such shares, the undertaking is cumulative to a maximum of eight quarters, including the current period requirements.

(2) BCE shall make all reasonable efforts to purchase in the open market for cancellation 1.25% of the $2.70 preferred shares outstanding on March 15, 1992, in each calendar quarter, commencing with the calendar quarter ending June 30, 1992, at a price not exceeding $20 per share plus costs of purchase. To the extent that BCE is unable to purchase such shares, the undertaking shall be cumulative in the calendar quarters of the same calendar year, after which it shall be extinguished.

Taking into account purchases to December 31, 1986, the maximum aggregate stated capital of shares that BCE may be required to purchase, if available pursuant to the terms of the purchase funds, for the years 1987 to 1989 are $5.8, $10.0 and $5.8 million, respectively.

## 12. COMMON SHARES

**Authorized:** an unlimited number of common shares

| | December 31, 1986 | | December 31, 1985 | |
|---|---|---|---|---|
| | dollars in millions | | | |
| | Number of shares | Stated capital | Number of shares | Stated capital |
| **Outstanding** | **265,275,696** | **$4,099.2** | **246,046,614** | **$3,381.5** |

Number of common shares issued during the last three years are as follows:

| | 1986 | 1985 | 1984 |
|---|---|---|---|
| For cash | | | |
| Underwritten and privately placed issues | 9,958,718 | — | — |
| Shareholder Dividend Reinvestment and Stock Purchase Plan | 7,234,548 | 9,526,150 | 11,668,509 |
| Employees' Savings Plan (1966) | — | 310,257 | 480,461 |
| Conversion of preferred shares | 1,930,618 | 2,276,542 | 2,197,894 |
| Optional Stock Dividend Program | 105,198 | 451,282 | 556,228 |
| On acquisition of subsidiaries | — | — | 3,541,509 |
| | 19,229,082 | 12,564,231 | 18,444,601 |

**Stock options**

Under the Long-Term Incentive (Stock Option) Program (1985) (the "Plan"), options may be granted to officers and other key employees of BCE and of its subsidiaries to purchase common shares of BCE at a subscription price of 100% of market value. The options are exercisable during a period not to exceed ten years. The right to exercise options accrues over a period of four years of continuous employment. No options are exercisable during the first twelve months after the date of the grant. Simultaneously with the grant of an option, the employee may be also granted the right to a special compensation payment ("SCP") (payable, in accordance with the terms of the Plan, in cash or in shares of BCE). The amount of any SCP is equal to the increase in market value of the number of BCE shares covered by the SCP (which number may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCP to the date of exercise of the option to which the SCP is related.

At December 31, 1986, 5,000,000 common shares were authorized for issuance under the Plan. Shares covered by options granted with respect to any year may not exceed one-half of one per cent of the outstanding common shares of the corporation at the end of the immediately preceding year.

As of February 3, 1987, options covering 401,811 shares were outstanding: 124,724 granted, with respect to the year 1984, at an exercise price of $39.375 per share; 146,990 granted, with respect to the year 1985, at an exercise price of $37.6875 per share; and 130,097 granted, with respect to the year 1986, at an exercise price of $39.75 per share. One-quarter of the options granted with respect to 1984 and 1985 are now exercisable. In addition, SCPs have been granted to the same key employees covering the same number of shares as the options to which the SCPs are related.

Additional common shares reserved at December 31, 1986 — 20,233,524:

5,219,375 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

12,847,932 shares for issuance upon conversion of all convertible preferred shares.

2,166,217 shares for issuance under the Optional Stock Dividend Program.

## 13. FOREIGN EXCHANGE ADJUSTMENT

Following is an analysis of the foreign exchange adjustment included in the common shareholders' equity resulting from self-sustaining foreign operations:

| | 1986 | 1985 | 1984 |
|---|---|---|---|
| | millions of dollars | | |
| **Balance at beginning of year** | **$137.2** | **$ 70.1** | **$23.8** |
| Translation adjustments for the year | **(19.2)** | 67.1 | 46.3 |
| **Balance at end of year** | **$118.0** | **$137.2** | **$70.1** |

## 14. UNUSED BANK LINES OF CREDIT

At December 31, 1986, unused bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $1,320 million.

## 15. CHANGES IN WORKING CAPITAL

(Increase) decrease in working capital:

| | 1986 | 1985 | 1984 |
|---|---|---|---|
| | millions of dollars | | |
| **(Increase) decrease in current assets:** | | | |
| Accounts receivable | **$(343.8)** | $(493.3) | $(489.7) |
| Inventories | **176.1** | (.1) | (514.1) |
| Other current assets | **(16.2)** | (27.6) | 29.3 |
| **Increase (decrease) in current liabilities:** | | | |
| Accounts payable | **236.9** | 255.0 | 257.1 |
| Advanced billing and payments | **14.7** | 11.2 | 2.6 |
| Dividends payable | **16.1** | 14.0 | 20.5 |
| Taxes accrued | **(2.2)** | 110.5 | 39.8 |
| Interest accrued | **3.8** | 11.1 | 9.1 |
| | **$ 85.4** | **$(119.2)** | **$(645.4)** |

## 16. QUARTERLY FINANCIAL DATA

Summarized consolidated quarterly financial data (in millions of dollars, except per share amounts):

| | Three months ended | | | |
|---|---|---|---|---|
| **1986** | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| Telecommunications operations | | | | |
| Operating revenues | $1,542.7 | $1,630.8 | $1,648.5 | $1,719.1 |
| Net revenues | 453.9 | 467.6 | 477.4 | 444.0 |
| Telecommunications equipment manufacturing | | | | |
| Revenues | 1,347.3 | 1,461.6 | 1,420.2 | 1,807.0 |
| Gross profit | 451.7 | 536.8 | 562.2 | 744.7 |
| Net revenues | 82.4 | 116.9 | 125.9 | 257.3 |
| Real estate operations | | | | |
| Operating revenues | 53.7 | 61.3 | 42.5 | 134.4 |
| Net revenues (Operating losses) | (1.4) | 6.2 | (.5) | 6.1 |
| Other operations | | | | |
| Operating revenues | 251.7 | 270.7 | 281.4 | 259.6 |
| Net revenues | 43.4 | 56.4 | 51.0 | 35.9 |
| **Total revenues** | **3,195.4** | **3,424.4** | **3,392.6** | **3,920.1** |
| Net income | 240.1 | 253.6 | 272.4 | 257.5 |
| Net income applicable to common shares | 230.4 | 244.0 | 262.8 | 249.0 |
| Earnings per common share | $.93 | $.95 | $1.01 | $.94 |
| Assuming full dilution | $.91 | $.94 | $ .99 | $.93 |
| Average common shares outstanding (thousands) | 248,940 | 256,665 | 260,712 | 263,975 |

| | Three months ended | | | |
|---|---|---|---|---|
| **1985** | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| Telecommunications operations | | | | |
| Operating revenues | $1,446.8 | $1,497.7 | $1,523.6 | $1,564.1 |
| Net revenues | 433.5 | 443.9 | 457.3 | 400.4 |
| Telecommunications equipment manufacturing | | | | |
| Revenues | 1,311.2 | 1,499.2 | 1,339.5 | 1,616.4 |
| Gross profit | 488.4 | 559.0 | 498.3 | 572.7 |
| Net revenues | 129.1 | 173.7 | 117.1 | 161.0 |
| Real estate operations | | | | |
| Operating revenues | 11.7 | 90.1 | 173.8 | 132.5 |
| Net revenues (Operating losses) | .5 | 7.1 | (1.9) | (.9) |
| Other operations | | | | |
| Operating revenues | 224.6 | 266.7 | 255.4 | 304.1 |
| Net revenues | 35.4 | 46.2 | 43.4 | 48.4 |
| **Total revenues** | **2,994.3** | **3,353.7** | **3,292.3** | **3,617.1** |
| Net income | 255.4 | 274.5 | 250.8 | 270.1 |
| Net income applicable to common shares | 244.4 | 263.7 | 240.4 | 260.5 |
| Earnings per common share | $1.04 | $1.11 | $1.00 | $1.07 |
| Assuming full dilution | $1.01 | $1.08 | $ .98 | $1.05 |
| Average common shares outstanding (thousands) | 234,791 | 236,927 | 239,352 | 242,993 |

## 17. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES GAAP

(millions of dollars, except per share amounts)

| | Three months ended | | | |
|---|---|---|---|---|
| **1986** | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| Net income, as reported | $240.1 | $253.6 | $272.4 | $257.5 |
| Adjustments | | | | |
| Foreign exchange (a) | 7.5 | 19.6 | (.7) | 12.3 |
| Equity in net income of associated companies (b) | (121.9) | (36.2) | (28.3) | (8.7) |
| **Net income — U.S. GAAP** | **$125.7** | **$237.0** | **$243.4** | **$261.1** |
| **Earnings per common share — U.S. GAAP** | $.47 | $.89 | $.90 | $.96 |

| | Three months ended | | | |
|---|---|---|---|---|
| **1985** | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| Net income, as reported | $255.4 | $274.5 | $250.8 | $270.1 |
| Adjustments | | | | |
| Foreign exchange (a) | (45.6) | 15.6 | (13.4) | (25.2) |
| Equity in net income of associated companies (b) | (11.4) | (6.8) | (33.0) | (29.8) |
| **Net income — U.S. GAAP** | **$198.4** | **$283.3** | **$204.4** | **$215.1** |
| **Earnings per common share — U.S. GAAP** | $.80 | $1.15 | $.81 | $.84 |

| | Year ended December 31 | | |
|---|---|---|---|
| | **1986** | 1985 | 1984 |
| Net income, as reported | **$1,023.6** | $1,050.8 | $940.3 |
| Adjustments | | | |
| Foreign exchange (a) | **38.7** | (68.6) | (71.3) |
| Equity in net income of associated companies (b) | **(195.1)** | (81.0) | (2.6) |
| **Net income — U.S. GAAP** | **$ 867.2** | **$ 901.2**(c) | **$866.4**(c) |
| **Earnings per common share — U.S. GAAP** | **$3.22** | $3.60 | $3.70 |

(a) Difference arising from the method of accounting, under Canadian GAAP, for unrealized foreign currency gains and losses on long-term debt and United States Financial Accounting Standards Board's Statement No. 52 — Foreign Currency Translation.

(b) The most significant factors causing these differences between Canadian and U.S. GAAP are the application of full cost accounting rules for oil and gas and the treatment of unrealized foreign currency losses.

(c) If early retirement incentive plans in 1985 and 1984 had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 74: Accounting for Special Termination Benefits Paid to Employees, net income for those years would have decreased by $28.6 million and $30.3 million, respectively.

## 18. PENSIONS

BCE and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions based on length of service and rates of pay for substantially all their employees.

The policy is to fund pension costs through contributions based on various actuarial cost methods as permitted by pension regulatory bodies. Such costs are funded as accrued and reflect actuarial assumptions regarding salary projection and future service benefits. The provision for pension costs was $278.5 million for the year ended December 31, 1986 (1985 — $296.0, 1984 — $271.3).

In compliance with the United States Financial Accounting Standards Board's Statement No. 36, the disclosure of the following information is required to exclude actuarial assumptions regarding salary projection and future service benefits. A comparison of accumulated plan benefits and plan net assets is provided as follows:

| | December 31, 1985 | December 31, 1984 |
|---|---|---|
| | millions of dollars | |
| Actuarial present value of accumulated plan benefits | | |
| Vested | $3,246.2 | $2,921.9 |
| Non-vested | 512.8 | 452.9 |
| | **$3,759.0** | **$3,374.8** |
| **Net assets available for benefits — at market value** | **$5,547.5** | **$4,415.1** |

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.3% for 1985 and 7.2% for 1984.

In addition to pension benefits, BCE and its subsidiary companies provide certain health care and life insurance benefits for retired employees. The costs of such benefits, excluding life insurance, are paid out of current income, as benefits are received, and in 1986 amounted to $12.4 million (1985 — $11.6, 1984 — $9.3). Life insurance for retired employees is largely funded during their working lives.

## 19. INDUSTRY SEGMENTS INFORMATION

BCE and its subsidiaries operate principally in three reportable business segments:

1) Telecommunications operations, which includes the provision of voice, data, image, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services, including directory operations;

2) Telecommunications equipment manufacturing, which involves the design, development, manufacture and marketing of central office switching equipment, integrated business systems and terminals, transmission equipment, cable and outside plant products, and other telecommunications products and services; and

3) Real estate operations, which involves the acquisition of land or other properties for resale or future development; and the development, for retention as income producing or for sale, of commercial and residential properties.

In addition, "Other operations" includes international consulting services; printing, packaging and publishing; and other fields.

The following table sets forth revenues, net revenues and supplementary data for each of the corporation's business segments for the years ended December 31:

| | 1986 | 1985 | 1984 |
|---|---|---|---|
| | millions of dollars | | |
| By segment | | | |
| Revenues | | | |
| Telecommunications operations | **$ 6,541.1** | $ 6,032.2 | $ 5,540.9 |
| Telecommunications equipment manufacturing | **6,036.1**(a) | 5,766.3(a) | 4,321.0(a) |
| Intersegment revenues | **47.3** | 52.2 | 57.6 |
| | **6,083.4** | 5,818.5 | 4,378.6 |
| Real estate operations | **291.9** | 408.1 | 1.1 |
| Other operations | **1,063.4** | 1,050.8 | 715.7 |
| Intersegment revenues | **85.3** | 67.3 | 55.1 |
| | **1,148.7** | 1,118.1 | 770.8 |
| Eliminations of intersegment revenues | **(132.6)** | (119.5) | (112.7) |
| **Total revenues** | **$13,932.5** | $13,257.4 | $10,578.7 |
| Total net revenues | | | |
| Telecommunications operations | **$ 1,838.5** | $ 1,721.4 | $ 1,568.4 |
| Telecommunications equipment manufacturing | **576.9** | 580.6 | 475.3 |
| Real estate operations | **10.4** | 4.8 | .2 |
| Other operations | **196.7** | 187.4 | 123.4 |
| | **$ 2,622.5** | $ 2,494.2 | $ 2,167.3 |

## 19. INDUSTRY SEGMENTS INFORMATION (continued)

| | **1986** | 1985 | 1984 |
|---|---|---|---|
| | | millions of dollars | |
| By segment | | | |
| Identifiable assets | | | |
| Telecommunications operations | **$12,704.6** | $11,882.0 | $11,212.6 |
| Telecommunications equipment manufacturing | **3,926.2** | 3,867.0 | 3,355.8 |
| Real estate operations | **2,865.8** | 1,330.0 | 101.5 |
| Other operations | **1,077.7** | 948.7 | 579.6 |
| Eliminations | **(355.4)** | (360.5) | (258.4) |
| | **20,218.9** | 17,667.2 | 14,991.1 |
| Investments | **2,190.3** | 1,802.4 | 1,423.4 |
| General corporate assets | **1,304.4**(b) | 1,113.8(b) | 1,071.5(b) |
| **Total assets as at December 31** | **$23,713.6** | **$20,583.4** | **$17,486.0** |
| Depreciation | | | |
| Telecommunications operations | **$ 1,026.6** | $ 997.1 | $ 922.9 |
| Telecommunications equipment manufacturing | **343.4** | 278.8 | 211.0 |
| Real estate operations | **3.3** | 2.6 | .1 |
| Other operations and general corporate | **38.4** | 33.7 | 18.1 |
| **Total depreciation** | **$ 1,411.7** | **$ 1,312.2** | **$ 1,152.1** |
| Gross capital expenditures | | | |
| Telecommunications operations | **$ 1,728.7** | $ 1,480.3 | $ 1,262.8 |
| Telecommunications equipment manufacturing | **421.9** | 623.8 | 569.6 |
| Real estate operations | **542.8** | 259.6 | 100.7 |
| Other operations and general corporate | **75.8** | 63.2 | 23.2 |
| **Total capital expenditures** | **$ 2,769.2** | **$ 2,426.9** | **$ 1,956.3** |

The following table sets forth information by geographic area for the years ended December 31:

| | **1986** | 1985 | 1984 |
|---|---|---|---|
| | | millions of dollars | |
| By geographic area | | | |
| Total revenues | | | |
| Canada | | | |
| Customers (c) | **$ 8,768.1** | $ 8,192.1 | $ 7,151.9 |
| Transfers between geographic areas | **636.2** | 794.7 | 828.1 |
| | **9,404.3** | **8,986.8** | **7,980.0** |
| U.S.A | | | |
| Customers (c) | **4,476.2** | 4,392.5 | 2,952.3 |
| Transfers between geographic areas | **149.5** | 124.0 | 121.4 |
| | **4,625.7** | **4,516.5** | **3,073.7** |
| Other | | | |
| Customers (c) | **688.2** | 672.8 | 474.5 |
| Transfers between geographic areas | **45.8** | 52.6 | 33.1 |
| | **734.0** | **725.4** | **507.6** |
| Elimination of transfers between geographic areas | **(831.5)** | **(971.3)** | **(982.6)** |
| **Total revenues** | **$13,932.5** | **$13,257.4** | **$10,578.7** |

## 19. INDUSTRY SEGMENTS INFORMATION (continued)

| | 1986 | 1985 | 1984 |
|---|---|---|---|
| | millions of dollars | | |
| By geographic area (c) | | | |
| Total net revenues before research and development expenses | | | |
| Canada | **$ 2,550.4** | $ 2,290.2 | $ 2,152.1 |
| U.S.A. | **977.0** | 1,021.0 | 658.6 |
| Other | **166.7** | 151.3 | 104.2 |
| | **3,694.1** | 3,462.5 | 2,914.9 |
| Research and development expenses | **(787.6)** | (706.5) | (543.1) |
| General corporate expenses | **(284.0)** | (261.8) | (204.5) |
| Other income (expense) | **(415.7)** | (360.6) | (299.4) |
| **Income before income taxes and minority interest** | **$ 2,206.8** | **$ 2,133.6** | **$ 1,867.9** |
| Identifiable assets | | | |
| Canada | **$15,326.0** | $14,711.3 | $13,636.2 |
| U.S.A. | **5,130.1** | 3,745.9 | 2,307.8 |
| Other | **539.1** | 626.6 | 218.7 |
| Eliminations | **(776.3)** | (1,416.6) | (1,171.6) |
| | **20,218.9** | 17,667.2 | 14,991.1 |
| Investments | **2,190.3** | 1,802.4 | 1,423.4 |
| General corporate assets | **1,304.4**(b) | 1,113.8(b) | 1,071.5(b) |
| **Total assets as at December 31** | **$23,713.6** | **$20,583.4** | **$17,486.0** |

(a) Telecommunications equipment manufacturing includes revenues of $1,256.6 million (1985 — $1,086.3, 1984 — $846.3) from Bell Canada and other telephone subsidiary and associated companies of BCE. These revenues are not eliminated on consolidation. Telecommunications equipment manufacturing revenues of Northern Telecom Limited from Bell Canada are at sale prices and terms as low as those offered to the most favoured customers of Northern Telecom Limited for like materials and services under comparable conditions.

(b) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.

(c) The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic area.

## 20. REGULATORY DECISION

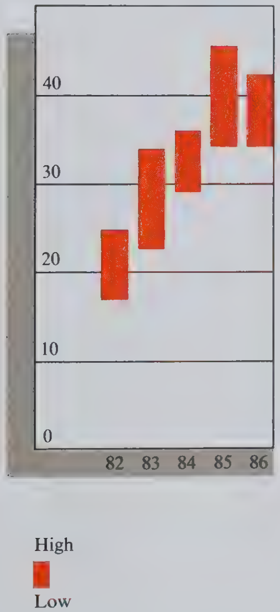
On October 14, 1986, the Canadian Radio-television and Telecommunications Commission ("CRTC") rendered its decision on Bell Canada's revenue requirements for 1987, 1986 and 1985. The CRTC decision established rates of return on common equity which are to be applied retroactively for 1986 and 1985. The CRTC decision also directed that certain items which had been expensed in the periods since January 1, 1985 should be capitalized; as a result, operating expenses would have been reduced by approximately $60 million and $5 million for 1986 and 1985 respectively. Taking into account these determinations, the CRTC concluded that Bell Canada had earned excess revenues of $143 million and $63 million for 1986 and 1985 respectively and directed Bell Canada to provide most of its subscribers with a one-time credit totalling $206 million by January 31, 1987. Bell Canada has commenced appeal proceedings before the Federal Court of Appeal regarding that part of the CRTC decision which directed Bell Canada to provide the one-time credit to its subscribers, and the Court granted a stay of execution permitting Bell Canada to withhold payment of the credit until the appeal has been decided. Management, supported by the opinion of legal counsel, believes that Bell Canada's appeal is likely to be successful.

The effect of the decision as set out in this note, which has not been reflected in the financial statements for the years ended December 31, 1986 and 1985, would be to reduce BCE's net income by approximately $71 million after taking into account the tax effects, of which $42 million ($0.16 per common share) relates to 1986 (1st quarter, $15 million: $0.06 per share; 2nd quarter, $6 million: $0.02 per share; 3rd quarter, $10 million: $0.04 per share; and 4th quarter, $11 million: $0.04 per share) and $29 million ($0.12 per share) to 1985 (1st quarter, $11 million: $0.05 per share; 2nd quarter, $10 million: $0.04 per share; 3rd quarter, $7 million: $0.03 per share; and 4th quarter, $1 million).

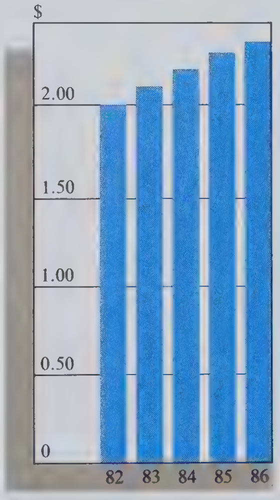
# Price Ranges of Common Shares

| | 1986 | | 1985 | |
|---|---|---|---|---|
| | **High** | **Low** | High | Low |
| Montreal and Toronto | | | | |
| 1st quarter | **$42** | **$36¾** | $39⅞ | $34¼ |
| 2nd quarter | **41** | **37⅜** | 45¼ | 38⅝ |
| 3rd quarter | **39½** | **37⅛** | 44½ | 39¾ |
| 4th quarter | **38⅛** | **34¼** | 43⅝ | 40¼ |
| NYSE consolidated tape (US $) | | | | |
| 1st quarter | **$30** | **$25⅝** | $29¼ | $26 |
| 2nd quarter | **29½** | **26⅞** | 33 | 28⅛ |
| 3rd quarter | **28½** | **26¾** | 33 | 29⅜ |
| 4th quarter | **27½** | **24⅞** | 31⅝ | 29¼ |

**Market prices per common share**
(Canadian dollars)




**Dividend growth**




**Dividends**

Quarterly dividends of $0.59 per common share were paid in 1986 ($0.57 in 1985).

On November 26, 1986, an increase in the dividend on common shares was declared. The final 1986 quarterly dividend, which was paid on January 15, 1987, was raised to $0.60. The indicated annual rate is now $2.40, an increase of $0.04 over the previous annual rate.

**Number of Shareholders**

At December 31, 1986, there were 338,528 registered holders of common shares.

## Selected Financial and Other Data (Consolidated)

| | **1986** | 1985 | 1984 | 1983 | 1982 |
|---|---|---|---|---|---|
| **Income statement data** (millions of dollars) | | | | | |
| **Revenues** | | | | | |
| Local service | **$ 2,379.9** | $ 2,354.0 | $ 2,294.7 | $ 2,224.2 | $ 2,136.0 |
| Long distance service | **3,355.1** | 3,040.6 | 2,739.4 | 2,481.3 | 2,276.6 |
| Directory advertising and miscellaneous — net | **806.1** | 637.6 | 506.8 | 370.6 | 278.5 |
| Total telecommunications operations | **6,541.1** | 6,032.2 | 5,540.9 | 5,076.1 | 4,691.1 |
| Telecommunications equipment manufacturing | **6,036.1** | 5,766.3 | 4,321.0 | 3,248.3 | 2,986.5 |
| Real estate operations | **291.9** | 408.1 | 1.1 | — | — |
| Other operations | **1,063.4** | 1,050.8 | 715.7 | 550.3 | 733.7 |
| **Total revenues** | **13,932.5** | **13,257.4** | **10,578.7** | **8,874.7** | **8,411.3** |
| Income before extraordinary items | **1,023.6** | 1,050.8 | 940.3 | 745.2 | 611.5 |
| Net income | **1,023.6** | 1,050.8 | 940.3 | 829.8 | 615.4 |
| **Balance sheet data** (millions of dollars) | | | | | |
| Total assets* | **$23,713.6** | $20,583.4 | $17,486.0 | $14,940.4 | $13,424.1 |
| Common equity* | **8,366.1** | 7,309.0 | 6,316.9 | 5,306.9 | 4,256.8 |
| Preferred shares* (redeemable) | **257.2** | 312.9 | 377.5 | 423.6 | 522.4 |
| Minority interest* | **2,338.8** | 1,893.6 | 1,349.1 | 800.0 | 527.5 |
| Long-term debt* (including current portion) | **7,074.9** | 6,148.8 | 4,761.2 | 4,527.0 | 4,801.0 |
| Gross capital expenditures | **2,769.2** | 2,426.9 | 1,956.3 | 1,597.1 | 1,759.6 |
| **Common share data** | | | | | |
| Earnings per common share | | | | | |
| before extraordinary items | **$ 3.83** | $ 4.23 | $ 4.03 | $ 3.46 | $ 3.05 |
| after extraordinary items | **$ 3.83** | $ 4.23 | $ 4.03 | $ 3.88 | $ 3.07 |
| Assuming full dilution | | | | | |
| before extraordinary items | **$ 3.77** | $ 4.13 | $ 3.92 | $ 3.37 | $ 2.97 |
| after extraordinary items | **$ 3.77** | $ 4.13 | $ 3.92 | $ 3.76 | $ 2.99 |
| Dividends declared per common share | **$ 2.37** | $ 2.30 | $2.205 | $2.105 | $ 1.99 |
| Equity per common share* | **$31.54** | $29.71 | $27.06 | $24.68 | $22.68 |
| Return on common equity | **12.5%** | 15.0% | 15.7% | 14.7% | 13.7% |
| **Other statistics** | | | | | |
| Telephones in service* (thousands) | **9,543.2** | 9,618.0 | 9,768.8 | 9,780.2 | 9,887.6 |
| Network access services* (thousands) | **7,745.9** | 7,423.6 | 7,144.5 | 6,886.9 | 6,721.5 |
| Long distance messages (millions) | **1,083.4** | 977.5 | 895.2 | 833.3 | 791.1 |
| Number of employees* (thousands) | **109.9** | 108.3 | 108.1 | 100.9 | 97.8 |

*At December 31

## Shareholder Statistics

| As at December 31 | **1986** | 1985 | 1984 | 1983 | 1982 |
|---|---|---|---|---|---|
| **Common shareholders by holdings** | | | | | |
| 1-99 shares | **144,805** | 139,093 | 130,759 | 122,765 | 100,802 |
| 100-999 shares | **166,161** | 165,984 | 161,681 | 153,232 | 136,608 |
| 1,000 shares and over | **27,562** | 27,363 | 28,797 | 28,435 | 25,802 |
| **Total** | **338,528** | 332,440 | 321,237 | 304,432 | 263,212 |
| Average number of common shares per registered holder | **783** | 740 | 726 | 706 | 713 |
| Total number of shareholders (including preferred) | **348,441** | 344,541 | 335,412 | 321,140 | 284,378 |
| **Common shareholders by location** | | | | | |
| Canada | **331,623** | 325,877 | 314,804 | 298,439 | 257,625 |
| Other | **6,905** | 6,563 | 6,433 | 5,993 | 5,587 |
| **Total** | **338,528** | 332,440 | 321,237 | 304,432 | 263,212 |
| **Common shares by location** | | | | | |
| Canada* | **250,695,266** | 231,332,364 | 220,691,475 | 201,913,798 | 180,237,717 |
| Other | **14,580,430** | 14,714,250 | 12,790,908 | 13,123,984 | 7,443,617 |
| **Total** | **265,275,696** | 246,046,614 | 233,482,383 | 215,037,782 | 187,681,334 |

* Held by shareholders registered as residents of Canada

## Canadian Taxes on Foreign Investors

**Income Taxes**

Dividends (including stock dividends) on BCE shares, paid or credited to non-residents of Canada, are subject to withholding tax at 25 per cent, unless reduced by treaty.

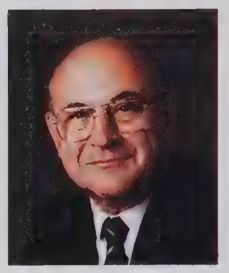
Under the United States-Canada Income Tax Convention, a withholding tax of 15 per cent applies to BCE dividends (including stock dividends) paid or credited to individuals residing in the United States, or corporations organized under the laws of the United States, that do not have a "permanent establishment" or a "fixed base" in Canada.

Gains on disposals of BCE shares by a non-resident of Canada are generally not subject to Canadian income tax, unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

**Estate and Succession Duties**

There are no estate taxes or succession duties imposed by Canada or by any province of Canada.

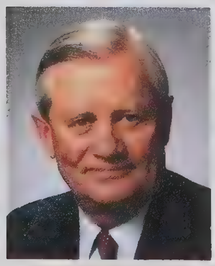
# Board of Directors



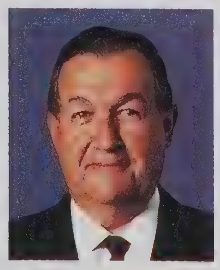
**A. Jean de Grandpré,** O.C., Q.C.
Montreal, Quebec
Chairman of the Board
and Chief Executive Officer
Bell Canada Enterprises Inc.

**Marcel Bélanger,** O.C., F.C.A.
Quebec, Quebec
President
Gagnon et Bélanger Inc.
(management consultants)

**G. Allan Burton,**
D.S.O., C.M., E.D.
Milton, Ontario
(company director)

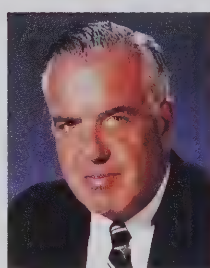


**Warren Chippindale,** F.C.A.
Westmount, Quebec
(company director)

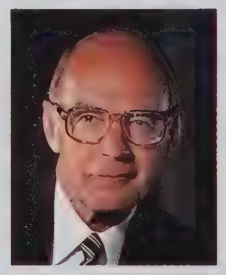


**J.V. Raymond Cyr**
Montreal, Quebec
* President
Bell Canada Enterprises Inc.
and Chairman of the Board
Bell Canada

**C. William Daniel,** O.C.
Willowdale, Ontario
(company director)



**Edmund B. Fitzgerald**
Nashville, Tennessee, U.S.A.
Chairman of the Board
and Chief Executive Officer
Northern Telecom Limited



**Rowland C. Frazee,** O.C.
Town of Mount Royal, Quebec
(company director)

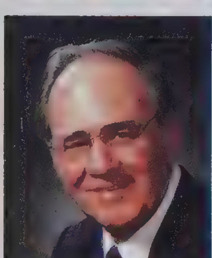
**J. Peter Gordon,** O.C.
Mississauga, Ontario
(company director)

**H. Clifford Hatch**
Windsor, Ontario
(company director)

**Paul H. Leman,** O.C.
Outremont, Quebec
(company director)

* **Gerald J. Maier**
Calgary, Alberta
President and Chief Executive Officer
TransCanada PipeLines Limited

**Helen L. Margison**
Toronto, Ontario
(company director)



**E. Neil McKelvey,** O.C., Q.C.
Saint John, New Brunswick
Partner
McKelvey, Macaulay, Machum (law firm)

**John H. Moore,** F.C.A.
London, Ontario
(company director)

**Gérard Plourde,** O.C.
Montreal, Quebec
(company director)

** **Robert J. Richardson,** Sc. D.
Westmount, Quebec
President
Bell Canada Enterprises Inc.

**Lucien G. Rolland,** O.C.
Montreal, Quebec
Chairman of the Board and Chief Executive Officer
Rolland inc.
(manufacturer and distributor of fine papers)

**Alastair H. Ross**
Calgary, Alberta
President
Allaro Resources Ltd.
(private oil and gas exploration company)

**Louise B. Vaillancourt,** C.M.
Outremont, Quebec
President
Fondation Armand-Frappier
(non-profit research funding organization)

**Lynton R. Wilson**
Oakville, Ontario
President and Chief Executive Officer
Redpath Industries Limited
(sugar refiners, manufacturers of automotive, industrial and construction products)

**Committees of the Board**
(January 1, 1987)

**Audit committee**
M. Bélanger — chairman
W. Chippindale
P.H. Leman
E.N. McKelvey
J.H. Moore
G. Plourde
L.B. Vaillancourt

**Investment committee**
A.J. de Grandpré — chairman
M. Bélanger
J.V.R. Cyr
C.W. Daniel
H.L. Margison
J.H. Moore
A.H. Ross
L.R. Wilson

**Pension fund policy committee**
J.P. Gordon — chairman
G.A. Burton
J.V.R. Cyr
E.B. Fitzgerald
E.N. McKelvey
G. Plourde

**Management resources and compensation committee**
J.P. Gordon — chairman
G.A. Burton
R.C. Frazee
H.C. Hatch
L.G. Rolland

* appointed January 1987
** resigned December 1986

## Corporate Officers

A. Jean de Grandpré
Chairman and
Chief Executive Officer

J.V. Raymond Cyr
President

Gordon E. Inns
Executive Vice-President
Planning

John E. Sinclair
Executive Vice-President
Corporate

J. Stuart Spalding
Executive Vice-President
Finance

Graham E. Bagnall
Vice-President and
Treasurer

Josef J. Fridman
Vice-President and
General Counsel

Guy Houle
Vice-President and
Corporate Secretary

Donald R. Newman
Vice-President and
Comptroller

J.E. Sinclair G.E. Inns
J.J. Fridman G. Houle

D.R. Newman
J.S. Spalding G.E. Bagnall

---

## Departmental Executive

Ivan Berggrun
Assistant Comptroller
Research, Budget and
Results

Stephen J. Brady
Assistant Treasurer
Shareholder Services

Shaul I. Ezer
Assistant General Counsel
(Ontario)

Simon Jegher
Assistant Treasurer
Financing

David H. Orr
Assistant Vice-President
Corporate Relations

Marc J. Ryan
Assistant General Counsel

Michel E. Saint-Cyr
Assistant Vice-President
Finance (Real Estate)

Nichol A. Smith
Assistant Vice-President
Taxation

Reynold Tremblay
Assistant Comptroller
External Reporting

Leonard J. Vanderheyden
Assistant Vice-President
Human Resources and
Administration

# Investor Information

**Transfer Offices for Stock**

***Canada:***

**BCE Shareholder Services**

800 Square Victoria
Montreal;

483 Bay St.
Toronto

**The Royal Trust Company**

St. John's, Nfld.; Halifax;
Charlottetown;
Saint John, N.B.; Winnipeg;
Regina; Calgary; Edmonton;
Vancouver

***Outside Canada — Common shares only:***

**American Transtech, Inc.**

New York, N.Y.

**Royal Trust Bank**

London, England

**Registrar for Stock**

***Canada:***

**BCE Shareholder Services**

Montreal; Toronto

**Montreal Trust Company**

St. John's, Nfld.; Halifax;
Charlottetown;
Saint John, N.B.; Winnipeg;
Regina; Calgary; Edmonton;
Vancouver

***Outside Canada — Common shares only:***

**American Transtech, Inc.**

New York, N.Y.

**The Royal Bank of Scotland plc.**

London, England

**Listing of Stock**

***Canada:***

The Montreal Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange

***Outside Canada — Common shares only:***

**Belgium**
Brussels Stock Exchange

**France**
Paris Stock Exchange

**Germany**
Frankfurt am Main, Düsseldorf Stock Exchanges

**Japan**
Tokyo Stock Exchange

**Switzerland**
Zürich, Basel, Geneva Stock Exchanges

**The Netherlands**
Amsterdam Stock Exchange

**United Kingdom**
The Stock Exchange

**United States**
New York Stock Exchange

## Shareholder Inquiries

*Mailing Address*

Bell Canada Enterprises Inc.
Shareholder Services
P.O. Box 3500
Tour de la Bourse
Montreal, Quebec H4Z 1L3

*Telephone*

Montreal (514) 394-7111
Toronto (416) 581-3380

Sur demande, le vice-président et secrétaire de la Société vous fera volontiers parvenir un exemplaire français du rapport annuel.

## Shareholder Dividend Reinvestment and Stock Purchase Plan

Shareholders wishing to acquire additional common shares of Bell Canada Enterprises Inc. can take advantage of the Shareholder Dividend Reinvestment and Stock Purchase Plan (DRP).

DRP provides a convenient method for shareholders to reinvest all or a portion of their common share cash dividends in new common shares of BCE, at 95 per cent of the average market price.

Participants in DRP may also invest monthly optional cash payments in new common shares of BCE, at 100 per cent of the average market price as follows:

1) Up to $20,000 cash, with a cumulative limit of $20,000 for each 12-month period ending October 15, and
2) Up to $20,000 of the aggregate of dividends on BCE preferred shares and interest on Bell Canada bonds and debentures, with a cumulative limit of $20,000 for each 12-month period ending October 15.

Shareholders participating in DRP pay no brokerage commissions or service charges on the acquisition of these shares and all administrative costs of the plan are borne by BCE.

Additional information can be obtained by calling:

(514) 394-7111

The annual reports to shareholders of the public companies of the group may be obtained from those companies or by request to the Vice-President and Corporate Secretary of BCE.

**Form 10-K**

The Annual Report on Form 10-K is available, from the date of its filing with the Securities and Exchange Commission in the United States, by writing to:

The Vice-President and
Corporate Secretary
Bell Canada Enterprises Inc.
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7

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